

AUSTRALIA IN THE WAR OF 1939-1945

SERIES FOUR

CIVIL

VOLUME III

WAR ECONOMY, 1939-1942

AUSTRALIA IN THE WAR OF 1939-1945

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WAR ECONOMY

1939 - 1942

by

S. J. BUTLIN

CANBERRA
AUSTRALIAN WAR MEMORIAL

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CONTENTS

	<i>Page</i>
<i>Preface</i>	xi
<i>Chronology</i>	xv
<i>Introduction</i>	xvii
 1 PREPARING FOR WAR	 1
The Imperial Conference of 1937	3
Munitions and Aircraft	5
Planning for Wartime Exports	7
Organising the Economy	9
Supplies for war	9
Manpower	14
Instruments of Planning	18
The Search for Coordination	18
The Commonwealth War Book	23
 2 PRICE CONTROL	 28
The Approach to Principles of Control	31
The Principles in Application	36
Enforcement and Effectiveness	40
The Course of Prices	41
Other Controls of Prices	44
Rents	47
 3 EXPORT INDUSTRIES AT WAR	 54
Bulk Sales	56
Wool	60
Dairy Produce	66
Eggs	71
Meat	73
Canned Fruits	79
Dried Fruits	81
Sugar	83
Lost Markets	85
Wheat	86
Barley	94
Apples and Pears	96
Wine	102
Export Income versus War Production	103
Rabbit Skins	104
Hides and Leather	106
Fertilisers	107

4	EXTERNAL FINANCE AND TRADE	110
	Monetary Control	112
	Export Control	113
	Securities Control	114
	Import Licensing	115
	Import Restrictions and the Balance of Payments	122
	Borrowing Overseas	125
	The British View	127
	Some Problems in the Application of Licensing	130
	General Review to June 1940	133
	The Impact of June 1940	133
	Other Controls on External Trade	139
5	SHIPPING	143
	The Outbreak of War	150
	Chartering	162
	Purchase	165
	Shipbuilding	168
	The Shipping Control Board	177
	Shipping Costs and Contracts	182
	The Machinery of Shipping Control	188
	The End of 1941	192
6	MEETING THE COST	195
	The First War Budget, September 1939	196
	Revised Budget, November 1939	199
	Control of Defence Expenditure	209
	The Financial Statement of May 1940	217
	Loans and the Coordination of Commonwealth and State Works	220
7	LABOUR IN WARTIME INDUSTRY	224
	Definition of Manpower Issues	227
	The National Register	228
	The List of Reserved Occupations	232
	Incentives, Training and Dilution	234
	The Department of Labour and National Service	249
8	EARLY PROBLEMS OF SUPPLY	253
	The Outbreak of War	256
	Machine Tools	259
	Small Arms Ammunition	261
	Aircraft Production	267
	Supplies other than Munitions	271
	Raw Materials	277
	Petrol and Substitute Fuels	280
	The Complexities of Supply	293
	Contracts, Administration and Finance	293
	Price Control	301
	Supply's Relations with other Sections of the War Economy	302
	Inducements to undertake War Production	304
	"Cost-Plus"	308

9	THE DRIVE FOR GREATER PRODUCTION	312
	The Department of Munitions	312
	Explosives Supply	313
	Gun Ammunition	315
	Ordnance Production	316
	Aircraft Production	322
	Machine Tools	325
	Materials Supply	327
	Supplies for Overseas	332
	The Unequivocal Demands of 1941	335
10	THE FIRST EIGHTEEN MONTHS	342
11	THE SEARCH FOR FINANCIAL POLICY	363
	The Budget of November 1940	363
	The Dilemma of Federal Financial Relations	380
	The Change of Government, October 1941	387
	Labour's First Budget	391
12	TRANSPORT AND COAL	397
	Railways	398
	Coal	408
	Commonwealth Coal Control	416
13	THE PROBLEM OF LIMITED RESOURCES	426
	Restriction of Imports	426
	The Machinery of Oversea Procurement	430
	Lend-Lease	431
	Munitions, Shipbuilding and Aircraft Production	434
	General Supply Problems	449
14	MANPOWER	475
	"Competition for Bulk Manpower"	475
	The Manpower Priorities Board	477
	The Balance of Labour Supplies and Needs	481
	Towards a Directorate of Manpower	485
15	THE ECONOMY ON THE EVE OF PEARL HARBOUR	488
	INDEX	505

ILLUSTRATIONS

	<i>Page</i>
"The Modern Gulliver's Problem." (Cartoon by Wells)	50
"If you took more of our surplus primary produce in your ration you'd be as sound as a bell." (Cartoon by Frith)	57
"Fellow-feeling." (Cartoon by Armstrong)	78
"First Contingent." (Cartoon by Ian Gall)	79
"Bulk Handling." (Cartoon by Gurney)	88
"Apple-a-day Blues." (Cartoon by Armstrong)	98
"Water Restriction." (Cartoon by Gurney)	110
Petrol Rationing—pamphlet cover	111
"Yoo Hoo!" (Cartoon by McRae)	170
"Godfather." (Cartoon by Mahony)	176
"It's the Limit." (Cartoon by Mahony)	270
"Handing Over." (Cartoon by Lahm)	271
"The Knit-one-and-drop-two Boys." (Cartoon by Armstrong)	272
"Escape from Sing Sing!" (Cartoon by Armstrong)	302
"Under the Roller He Went, B'Gum—" (Cartoon by Armstrong)	303
"Carry on, Australia!" (Cartoon by Armstrong)	343
"Excuse Me!" (Cartoon by Gurney)	366
"Home and Dry." (Cartoon by Gurney)	368
Election leaflet	371
"Pinning the Donkey's Tail!" (Cartoon by Armstrong)	392
"Bless 'em All!" (Cartoon by Armstrong)	492
"Left Till Called For!" (Cartoon by Armstrong)	503

MAPS AND DIAGRAMS

Pre-war Plan of Administrative Organisation (diagram)	20
Australian Railways (map)	401
New South Wales Railways (map)	404
Rail Links on the northern New South Wales Coalfields (sketch)	410
Coal Stocks (graph)	423
Cabinet Organisation and Production Executive (diagram)	496

PREFACE

IN trying to define the scope and purpose of this work as it has developed, it is perhaps easier to start by saying what is not claimed for it. First, it is not the economic history of Australia from 1939 to 1945, though I hope a contribution to it. Nor does it pretend to tell the whole story of Australian economic activity in relation to the war. That, on any adequate level of detail, is too vast a field for one writer, even with assistance. This volume and the one to follow therefore do not profess to be on a smaller scale the equivalent of the long list of economic volumes in the British civil history of the war. Even so the field to be covered is very wide and clearly the scale of treatment, even for the Australian story, must be drastically reduced. But it also means that it has been very necessary to select a way of approach to the great bulk of material which will give some unity to the result, and at the same time provide a rational basis for exclusion.

The principle I have followed is to focus attention on the formation of economic policy and to work from that backwards to the departmental roots of policy and forward to its fruition. But journeys in both directions have had to be severely limited. An account of the forces going to the formation and adoption of a policy, for instance, has usually been curtailed where to go further would have involved study in detail of the forces within a department or often several departments. For the most part I have been content to stop where I could identify a proposal for action as the policy of the department and the reasons which, it appeared, lay behind its adoption. Many professional and temporary public servants whose memories of conflicts and disputes are their keenest are likely therefore to be disappointed, to regard my account as right enough as far as it goes, but as neglecting to trace the sometimes serpentine path by which departments arrive at a policy, the clashes of personalities and ambitions, the often extraordinary results of initiative or of drive in an officer in a key post, the pressure of interested persons and businesses. These do not occupy much space in the story, not because they have been ignored, but because they have been excluded except where they thrust themselves into the main narrative. Similarly there is no full and detailed account of the execution of policy at the departmental level. Inevitably that means, for example, that the extent to which the Commonwealth depended on State agencies for executing its policies tends to be obscured. To tell the story on any other scale would require not only several lifetimes in reading Commonwealth files, but examination on a similar basis of records of the agencies of six States. That is work for others who will undoubtedly find reasons for modifying my account, but who will, I hope, find it a useful guide even when it proves fallible.

Another limitation should be stated. Many times it has become clear that the discovery of precise and complete data on a problem of which the main contours were clear would require a very great deal of research. Elsewhere, for instance, I comment on the deficiencies of wartime statistics and in many cases it is not only true that they did not exist at the time,

but that it would be a very difficult task now to provide good estimates of the missing data, as for example, in the case of manpower in 1939-40. In such cases in sheer self defence I have been forced to close off lines of research when I was sure that the nature and the dimensions of the problem had been sufficiently determined for my purpose. There will be plenty of places where readers can identify important subjects for detailed research by others.

On one or two matters it has been necessary to formulate my own working rules. For example I have had unrestricted access to Cabinet documents for the whole war period. These often directly or by implication disclose clashes of opinion amongst Ministers although the tradition that Cabinet documents should not record the details of discussion is in general observed. I have not felt entitled to use the opportunity of access to these documents to expose conflicts of opinion amongst Ministers if these records were the sole evidence of that conflict, but have felt that I should apply the principle of Cabinet responsibility for decisions. On the other hand there are occasions where important conflicts went beyond the Cabinet room. When that occurred the difference left its traces elsewhere, in which event I have felt free to use the Cabinet records to define the nature of the difference which often was not identical with that rumoured in the Press.

Another set of problems concerns comment on individuals. Professor Hancock, in *British War Economy*, explains why he refrains from naming individual public servants, although he names far more than his discussion of the problem would suggest. Broadly his argument is that the British Civil Service is traditionally anonymous and to pick out specific individuals for praise is unfair, while if praise is accorded so, too, should blame be. These arguments have not seemed to me as weighty as they did to Professor Hancock, especially in Australia where the civil servant has rarely been anonymous and during the war was often more in the public eye than his Minister. In any case it is part of the function of the historian to record persons who were associated with the events he describes, although there are obviously certain limits to assessment of persons, many of whom are still living. It certainly adds to the interest of a story and I have not hesitated to mention names and on occasion to add comment. Where adverse comment on a living person might involve career or reputation I have been very reluctant to make it, just as I have been anxious to avoid exaggerating the personal influence of this or that individual. But at least the mention of a name implies that that person's connection with the course of events was more than formal. And even if for any of several reasons I have not elaborated the connection, there is a lead for those who wish to go further. Where comment does occur it should be read as applying to the person concerned only in relation to the particular episode being described.

I have quoted freely from documents which are not readily available, and may not be released to others for many years. This seems to me desirable, even at the cost of some loss of balance, so that key extracts should be generally available. But I have not elaborately annotated the text with

references. This in a work intended for non-expert readers would have been tedious, and for those who might wish to follow up such references it would have been merely infuriating to have citations of Cabinet minutes and official files which could not be consulted. References, therefore, are mostly confined to quotations and to documents directly referred to in the text.

My thanks are due to a host of people including many public servants who have at one time or another given their help. In the early stages I had as research assistant Miss Ruth Atkins who undertook a great deal of dull routine in extracting material. She was succeeded by Miss Joyce Fisher upon whose efforts I have depended heavily. Much of the form and substance of the present volume derives from her work.

S.J.B.

Sydney.
January 1954.

CHRONOLOGY

1931		Japanese invade North China
1935		Italians invade Abyssinia
1938	29 Sep	Munich Agreement signed between United Kingdom, Germany, France and Italy
1939	23 Aug	Soviet-German non-aggression pact signed
	1 Sep	Germans invade Poland
	3 Sep	9.15 p.m. Prime Minister (R. G. Menzies) broadcasts that Australia is at war
1940	10 Jan	First convoy of 2nd A.I.F. (6th Division) sails for Middle East
	9 Apr	Germans invade Denmark and Norway
	10 May	Germans invade Holland, Belgium and Luxembourg
	10 May	Resignation of Mr Chamberlain, Coalition Government with Mr Churchill as Prime Minister
	28 May	Evacuation at Dunkirk begins
	10 Jun	Italy declares war
	22 Jun	France signs armistice terms with Germany
	10 Jul	Battle of Britain begins
	5 Sep	First draft of Australian E.A.T.S. trainees leaves Sydney for Vancouver (British Columbia)
	13 Sep	Italians invade Egypt
	22-23 Sep	Japanese troops move into Tonkin province (North Indo-China)
	27 Sep	Tripartite Pact (Germany, Italy and Japan)
	28 Oct	Italians invade Greece
	Oct-Nov	German raider <i>Penguin</i> lays mines off south and east coasts of Australia: these sink <i>Nimbin</i> (1,052 tons) between Newcastle and Sydney; <i>Cambridge</i> (10,846 tons) off Wilson's Promontory, Vic.; <i>City of Rayville</i> (5,883 tons—American) off Cape Otway, Vic.
	6-7-8 Dec	Raiders sink five vessels (total 25,900 tons) off Nauru
	9 Dec	Battle of Sidi Barrani begins
	27 Dec	Raider <i>Komet</i> fires 200 shells into phosphate plant at Nauru
1941	3-5 Jan	6th Division in their first engagement—Bardia captured
	6 Feb	Australians enter Benghazi
	18 Feb	Australian troops arrive at Singapore
	11 Mar	Lend-Lease Bill signed by President Roosevelt
	31 Mar	Enemy counter-attacks in North Africa
	6 Apr	Germans invade Greece and Yugoslavia
	11 Apr	Siege of Tobruk begins
	22 Apr	Evacuation of troops from Greece begins
	20 May	Germans invade Crete

- 1 Jun Forces (including Australian and New Zealand) withdrawn from Crete
- 8 Jun Allied forces (largely Australian) enter Syria
- 22 Jun Germans invade Russia
- 28 Jul Japanese troops land in South Indo-China
- 14 Aug The Atlantic Charter—Mr Attlee broadcasts news of Churchill-Roosevelt meeting
- 7 Oct Mr Curtin becomes Prime Minister of Australia
- 13 Nov United States Neutrality Act revised
- 18 Nov Second Western Desert offensive (Eighth Army under General Cunningham) begins
- 19 Nov H.M.A.S. *Sydney* sunk in action with German raider
- 7-8 Dec Japanese begin landings in Thailand and Malaya and attack Pearl Harbour
- 10 Dec H.M.S. *Prince of Wales* and H.M.S. *Repulse* sunk
- 11 Dec Italy and Germany declare war on United States of America
- 25 Dec Fall of Hong Kong

INTRODUCTION

THE structure of the present volume represents an uneasy compromise between chronology and clarity. As historical narrative it must pay due regard to development in time, which implies presenting contemporaneous events as such. Moreover the expression "war economy" implies that public finance, price control, foreign trade, manpower, production and so on are all inter-connected, implies, that is, that it all fits together. Yet in the earlier part of the war in Australia covered by the present volume, too faithful adherence to this principle would be only confusing. It is necessary to carry each segment of the story some considerable distance before it makes sense. In this early stage this does no violence to the facts, for one of the striking characteristics of the formative stages of the Australian war economy was the way each sectional policy developed with a minimum connection with what was happening elsewhere. Entry into the war with large reserves of unemployed resources, followed by a modest scale of war effort for two years meant that the segments of policy touched each other at few points and then lightly.

The solution adopted has been to trace economic preparations for war and to follow this by a series of sectional narratives which mostly cover, for their particular subjects, the same approximate time range: to about the end of 1940. Then the field over the period up to the end of 1940 is surveyed generally, and after more sectional narratives have carried the story further, this device is repeated for late 1941.

In one or two cases (price control for instance) the original narrative is carried through from the beginning to late 1941 because the events of 1941 in that field are of the nature of an appendix.

In determining the order of these sectional narratives they have been taken up roughly in the order in which their subjects demanded serious government attention. This principle can, of course, be only roughly applied, particularly in the earliest chapters where order is necessarily arbitrary.

CHAPTER 1

PREPARING FOR WAR

BETWEEN the end of the war of 1914-18 and the Imperial Conference of 1937 it is not easy to find any evidence that Australians had any conception of the economic implications of a new war. Discussion of defence policy and military preparedness ran in terms of analysis of international affairs and argument as to the nature and scale on which the armed forces should be equipped. In these areas of discussion there soon were marked out a number of clear definitions of political opinion, notably the Labour Party's hostility to any form of conscription for oversea service. For the rest the main, almost the only, economic aspect of defence which was considered was the impact on the economy of the sums needed to finance the modest armed services. Expenditure on defence in 1912-13 was £4,300,000; in the depression years 1930-31 to 1932-33 it averaged only £3,300,000. Thereafter it rose each year through the 'thirties but not until after the Munich crisis in September 1938 did it reach a scale which would justify taking seriously contemporary discussion of the burden on the economy of defence expenditure; in fact there was no burden, but rather in a period of high unemployment a modest defence expenditure promoted general economic expansion without requiring any restriction of the general level of activity, and without creating any shortages in special types of labour or materials.

Public discussion of the economic problems of defence was almost non-existent and when it did occur it was at an elementary level. Thus in the election campaign of October 1928 the Prime Minister, Mr Bruce,¹ enunciated certain principles: loyalty to the throne and the British Empire; a White Australia policy and constitutional government, and a declaration in favour of adequate defence precautions through the development of internal resources and manpower, and by cooperation with the British Navy. But there is no indication that the development of internal resources meant anything more than the traditional Australian belief in a vaguely defined notion of "development", while the reference to manpower related to plans for increased immigration despite Labour opposition on the grounds that there was unemployment in Australia.

The imposition of sanctions on Italy with the Abyssinian war and the invasion of North and Central China by Japan, in 1933, tended to crystallise views on the desirability of increasing Australian self-sufficiency on defence grounds, but it is not easy to read into contemporary discussions any clearcut view of the implications of such a line of approach. So far as government policy was concerned there were three developments of importance. In 1934 a three year programme of defence measures was announced to cover expansion of the navy, the arming of the fixed defences

¹ Rt Hon Viscount Bruce, CH, MC. (Lt Worcestershire Regt, 1915; Capt Royal Fusiliers, 1916-17.) MHR 1918-29, 1931-33; Treasurer 1921-23; Prime Minister and Min for External Affs 1923-29. High Commr for Aust in London 1933-45. B. Melbourne, 15 Apr 1883.

of Sydney, Newcastle, Brisbane and Fremantle, re-equipment of the army, and increases in the air force, together with expansion of munitions production. During the three years, expenditure on this programme including later revisions was about £21,000,000 of which nearly 45 per cent was spent on the navy. The expansion of local production, which was seen in any case as production of munitions in the restricted sense, was provided for on a very limited scale.

The Imperial Conference of 1930 recommended that participating governments of the other countries of the Empire should establish organisations on the model of the United Kingdom Principal Supply Officers' Committee. In Australia action on this recommendation and on the earlier proposal of the 1926 conference was leisurely, and it was not until March 1933 that such a committee, with the same name and similar functions, was established. It consisted of the Supply members of the Military, Naval and Air Boards; the Financial Secretary and Assistant Secretary of the Defence Department; and the Controller-General of Munitions Supply.

The terms of reference were:

To be responsible for:

- (a) ascertaining and maintaining a watch upon the national stocks of raw materials required in the manufacture of articles required by the three services;
- (b) preparing a list of articles, the total supply of which might be required in wartime, and for advice regarding prohibition of export on the outbreak of war;
- (c) maintaining liaison through the usual channels with the Principal Supply Officers' Committee in Great Britain;
- (d) furnishing periodical reports to the Defence Committee as far as possible;
- (e) to advise with regard to plans for increasing supplies in emergency, whether by special purchase arrangements or by opening up new sources of supply. These plans would include consideration of alternatives to meet the possibility of normal sources of supply being cut off by the nature of the war;
- (f) to maintain in the Contracts Office a list of contractors who could be called upon during emergency or whose machinery could be diverted to war work, and if necessary to suggest additions to the output capacity available in the country for war work.

For carrying out these functions the committee copied the British organisation, establishing eight Supply Committees to deal with particular fields of supply, their activities being coordinated by a Supply Board, consisting of the chairmen of the specialised committees. (The Supply Board was later renamed Defence Resources Board to avoid confusion with the Munitions Supply Board.)

It was intended that these committees should analyse the requirements of the Services in order to discover the extent to which control over materials would be necessary in war, to identify those materials likely to be in short supply, and to examine the extent to which it was practicable or desirable to permit the establishment or expansion of local manufacturing capacity. Special provision was made for investigation of the possibility of reducing the dependence on Victoria for service supplies, and in particular of promoting production in country areas.

The operations of this scheme were as protracted as its creation. It took four years for the committee to work out procedural devices and for conflicts of personalities to reach the point where reorganisation was belatedly achieved. One major reason for slow progress was the difficulty of getting from the Services a clear statement of their requirements for active operations. At the end of 1933 the Defence Committee gave the Principal Supply Officers' Committee a "basis of investigation" but this was withdrawn for revision within a few months and not replaced until September 1935. When it was received it had to be broken down into detailed requirements of individual items and these had to be examined according to a broad order of priority. The result was that when the committee presented its third report in May 1937 even the purely procedural questions had not been completed except for ammunition, and in that case the relevant supply committee had not got beyond a realisation of the serious lack of jigs, tools and gauges. Such slow progress was inevitable while all the officers concerned had to regard the work as a part-time addition to their other duties; only the chairman and secretary of the Defence Resources Board and one technical officer for field investigation were not involved in other duties. At one stage efforts were made to modify the organisation by including representatives of industry. Put forward by the Associated Chambers of Manufactures and supported by the Minister for Defence, this proposal was replaced by the appointment of representatives of manufacturers' associations as liaison officers in each State.

In its first four years therefore, the committee had little achievement to record. Its most important general conclusion had been that there was little hope of establishing or expanding local sources of supply unless it could place "educational" orders with local manufacturers, for which purpose it had proposed the expenditure of £250,000 in three years without, however, securing approval.

Early in 1937 the lack of concrete results from the committee came to a head in the form of personal conflicts between the committee and the permanent chairman of the Defence Resources Board. In April 1937, when the Imperial Conference was about to begin its discussions in London, reorganisation was imposed. The Defence Resources Board was eliminated together with six of the supply committees, retaining only those for foodstuffs and fuel oil. In place of the board an executive panel of the Principal Supply Officers' Committee itself was established, with an executive officer having under his direct control the administrative and technical staff. Thus the committee itself took direct responsibility for investigations of productive capacity.

THE IMPERIAL CONFERENCE OF 1937

In relation to economic preparations for war the importance of the Imperial Conference of 1937 lay not in any of the specific problems that were discussed but in the opportunity it provided for representatives, especially of Australia, to assess at close quarters the deterioration in

international relations and the reality of the threat of war. The result is reflected not in the specific recommendations of the conference but in the greater definiteness of purpose and precision of action within Australia in the months that followed, even though the reality of war was to find so much left undone.

The main issues in the economic discussions of the conference were two. First was the desire of the United Kingdom to work out steps for ensuring supplies, especially of food, from Empire countries while at the same time avoiding commitments not only as to the scale of purchases and prices but even commitments that purchase of particular commodities would in fact be made from this or that country. Second was the stress by the United Kingdom on the need for the Dominions and India to free themselves of dependence on the United Kingdom for supplies of arms and munitions by developing their own production.

The Board of Trade Supply Organisation had been seeking tentative arrangements with various Empire countries which were regarded as critical sources of supply for the vital commodities. In the case of Australia the commodities given special attention were lead, zinc and wool. Following the establishment of the Food (Defence Plans) Department of the Board of Trade in 1936, discussions had been opened with the Dominions and India as to the procedure which the United Kingdom would follow in the purchase of food in the event of a major war. It was foreshadowed that the principal foodstuffs over which comprehensive control would be exercised by the United Kingdom were wheat and other cereals, meat, sugar, butter and dairy products, oil seeds and nuts, fish and tea. In the light of 1914-18 experience the Board of Trade based its planning broadly on the elimination of private importing of all imported foodstuffs during war, and contemplated that, according to circumstances, the procedure would be to purchase the whole supplies available for export from the Empire country in question or to make bulk purchases at comparatively short intervals. A special warning of direct importance to Australia was that the need to economise shipping was likely to dictate import from the nearest available sources of supply, even though these were not the cheapest or were not Empire countries.

It was made clear by the United Kingdom that its own rearmament programme was straining the country's ability to produce munitions and that it was desirable that the Dominions and India should rely to a greater extent on their own production for the future, especially because a major war might make shipment from Britain precarious. It was recognised that in some countries of the Empire local Service commitments were not large enough for the development of a munitions industry on a scale sufficient to supply even local needs in the event of war. This view was emphasised especially by the Australian representatives who pointed out that Australia's plans were based upon the use of government factories as the peacetime nucleus, with reliance on private enterprise under government supervision for expansion in the event of war. Local capacity to produce in adequate quantities was complicated for the immediate future

by plans to expand the government munitions organisation to cover a wider range of newer types of equipment. The United Kingdom indicated that it was prepared to give aid in the expansion of Dominions munitions industries by placing orders for some of its own supplies in Empire countries, while at the same time stressing that it could not implement this policy at the expense of the planned development of its own industrial structure, and did not wish to become involved in relations with individual firms in Empire countries.

A specially difficult problem was that of aircraft. The Dominions were relying almost wholly on Britain for supplies of aircraft and Australia in particular complained of long delays in completion, because British factories were accepting orders from foreign countries, in some cases for commercial aircraft.

The Australian case was not entirely convincing. Moreover the British Government felt obliged to meet demands from some foreign countries as a matter of policy, while the claims of its own expanding air force appeared more important than those of Australia, which had to be content with a resolution recommending "that to the utmost extent practicable, having regard to the difficulties involved, His Majesty's Government in the United Kingdom should endeavour to secure that the requirements of the Dominions and India are given priority over those of foreign countries".

The Australian Government therefore obtained from the Imperial Conference a number of clear-cut guides for the formulation of its own policy. It would have to rely to an increasing extent on its own sources for the production of munitions; it could not count upon early or complete fulfilment of its orders for aircraft from England; it could make plans for controlled export of certain basic materials, but must also expect serious difficulty in the marketing of the less essential foodstuffs as well as of commodities such as wheat which Britain was likely to seek in wartime from nearer sources. The working out of these conclusions was conditioned by a new appreciation of the increasing risk of war in Europe and the threat of Japanese intervention on the side of Germany.

MUNITIONS AND AIRCRAFT

After the war of 1914-18 the Australian munitions organisation continued, and in 1921 the Munitions Supply Board within the Department of Defence was established. Despite the general reduction in defence expenditure in the 'twenties, a programme for the development of government factories and laboratories was successfully carried out; in 1930 there were four factories equipped: the ammunition factory at Footscray, Victoria, the explosives factory and the ordnance factory at Maribyrnong, Victoria, and the small-arms factory at Lithgow, New South Wales. During the depression years when there were virtually no orders from the Services, these factories were kept in working order and a nucleus staff retained by the production of a varied range of goods for the civilian market: lipstick containers, spare parts for motor-cars, golf irons, talking-film projectors, paints, chemicals and the like.

With the adoption in the 1934-35 Estimates of the three-year defence programme, there was further development, mainly in the direction of naval ammunition, and 3-inch anti-aircraft guns on mobile mountings were undertaken. (The army was to order twenty-four of them, and the first was proved in 1937.)

In 1937 under the new four-year defence programme three new projects, originating, in part, at the Imperial Conference, were undertaken: manufacture of 3.7-inch anti-aircraft guns and mountings; brass cartridge cases for anti-aircraft ammunition; and Bren light machine-guns.

A scheme to use industrial "annexes", an adaptation of the British scheme of shadow factories, was developed. This was the result of work by an Advisory Panel on Industrial Organisation.² The creation of the panel had followed the adoption, late in 1937, of the policy of "educational" orders for industry. The Principal Supply Officers' Committee was allowed £100,000 for this purpose and began by inviting tenders for some of the simpler munitions components, although the continuation of the scheme the following year was modified so that direct allocations of orders and negotiated contracts replaced tenders. With this growth in munitions production by private industry, the need for a regular channel for information and advice from industry was met by the creation of the Advisory Panel in March 1938. To this panel was referred the proposal of the Principal Supply Officers' Committee for armament annexes intended to provide the capacity to meet wartime munitions requirements which were beyond the existing and planned capacity of the government factories.

The scheme as adopted provided for some twenty-one armament annexes associated with State Government undertakings, especially railway workshops, and private factories. In the case of private enterprise all but four of the companies concerned provided buildings at their own expense, as did the State railway workshops in New South Wales and South Australia. In Victoria the Commonwealth undertook buildings attached to the government workshops. Since munitions production was an unknown field to most of the companies concerned, trial orders were to be placed with various annexes, payment to be on a basis of cost plus a margin of profit, a system of payment which was to be very extensively used, and would create major problems.

By contrast with the development of munitions production that of aircraft lagged far behind. The early pioneer efforts at local production in the 'twenties were those of private enterprise and even the initiative in 1935 for production of service aircraft came from industry and not the Government. After the ineffectual efforts of 1914-18 to construct aircraft in Australia with government support, the Government retreated to a policy of mild encouragement of private enterprise.³ In 1923 the General

² Members were: Essington Lewis (chairman), Sir Colin Fraser, Sir Alexander Stewart, M. W. Eady, and Hon F. P. Kneeshaw.

³ The R.A.A.F. Experimental Section at Randwick, N.S.W., under the guidance of Sqn Ldr L. J. Wackett, achieved two experimental flying-boats (the "Widgeon") and an experimental land-plane (the "Warrigal") between 1924 and 1928. Wackett was to become manager of the Commonwealth Aircraft Corporation. See D. Gillison, *Royal Australian Air Force 1939-42*, in the air series of this history.

Aircraft Company of Sydney produced some six elementary training bi-planes before going into liquidation; it was followed in 1929 by the Larkin Aviation Company of Melbourne which constructed 32 Gypsy Moth bi-planes, as well as several aircraft for the company's mail services operating in the Northern Territory before the opening of the England to Australia air mail service. The venture was killed by the depression so that after 1929 the only company in the field was De Havilland Aircraft Proprietary Limited, first established in 1929 as a sales and service organisation importing aircraft for the Royal Australian Air Force and for commercial airlines, but not, until 1939, engaged in local production. During the depression years the Munitions Supply Board made a tentative excursion into the field with the manufacture of 6 Gypsy Moth aircraft, but the experiment was not proceeded with.

In the early stages of rearmament in the 'thirties therefore, there was no domestic production of aircraft nor any organisation capable of undertaking the work, while the Air Board was complaining of serious delays in the supply of aircraft from Britain. It was at this stage in 1935 that Mr Essington Lewis⁴ took the initiative in seeking a conference with government representatives to discuss aircraft production. The outcome was the formation of a syndicate which the Government asked to establish factories for the manufacture of aircraft and engines. The project finally took legal shape in October 1936 as the Commonwealth Aircraft Corporation.⁵ It was expected that the company would not be capable of producing front-line aircraft in less than five years, and initially plans were concentrated on producing a simpler aircraft in order to develop capacity and train staff.

A joint mission representing the syndicate and the Royal Australian Air Force went abroad in 1936 to select an overseas aircraft as model and finally adopted the aircraft known in America as NA33, which, with modifications mainly to permit the use of materials more readily obtained in Australia, became the "Wirraway" trainer. The company occupied its factory in September 1937, but production of completed aircraft was delayed by shortages of materials. This led the company to sponsor the processing of aluminium and to develop local production of magnesium and bronze castings, for which in the end it became the chief source of supply for the whole industry.

PLANNING FOR WARTIME EXPORTS

The Imperial Conference had given Australian representatives a broad picture of British plans for control of the import of foodstuffs and raw materials, and of the basis upon which purchases from the Dominions would be made in the event of war, as well as a warning that some

⁴ Essington Lewis, CH. Mng Dir Broken Hill Pty Ltd 1926-38, Ch Gen Mgr 1938-50, Chmn since Feb 1950; Dir-Gen Munitions 1940-45; Dir-Gen Aircraft Production 1942-45. B. Burra, SA, 13 Jan 1881.

⁵ The syndicate included, initially, Broken Hill Pty Co Ltd, Broken Hill Associated Smelters Pty Ltd, and General Motors-Holden's Ltd.; to which were added, before incorporation, Imperial Chemical Industries of Australia & New Zealand Ltd, Electrolytic Zinc Co of Australasia Ltd, and Orient Steam Navigation Co Ltd.

industries of special importance to Australia would face difficulties. By the middle of 1938 the British Food Director, Sir Henry French, was ready to initiate discussions and negotiations with Australia with particular reference to wheat, meat, butter, eggs, sugar, dried and canned fruits. These negotiations proceeded continuously from this time until the outbreak of war, broadly on the assumption of three stages: the first involved all conditions of supply other than price, in order to arrive at pro forma contracts; the second was seen as agreement on the basis on which prices should be fixed; while the third, agreement on the actual price, was deferred until war should in fact occur.

The commencement of these negotiations accelerated the examination within Australia of the problems involved. At an early stage the necessity to prepare for large-scale storage of products normally exported appeared urgent because of the naval view that if, as was expected, Japan entered the war at its beginning, Australia must prepare for a complete dislocation of shipping lasting probably for two months.

Meanwhile at the request of the British Food (Defence Plans) Department an officer of the Department of Commerce was sent to London to facilitate negotiations with that department and to keep it informed about the development of Australian organisation for exports. In the development of plans for this administrative organisation the natural assumption of the Department of Commerce was that the various marketing boards would take wartime control of the products they normally handled. According to the Solicitor-General, however, only those boards for canned fruits, dried fruits and dairy products could accept control of goods and none of the various boards could purchase goods or act as purchasing agent for the British or Commonwealth Governments. It was for this reason that the normal administrative procedure adopted when war came was that the Commonwealth acquired under its constitutional powers the products to be controlled and provided that the various boards or committees should dispose of the goods as its agents.

By July 1939 the two governments had reached agreement that in the event of war the whole Australian wool clip would be purchased by the United Kingdom for the duration of the war although many of the details, and especially the price to be paid, remained to be settled. In the same month a clear understanding was also reached that the United Kingdom would purchase the export surplus of Australian meat, dairy produce, eggs, dried and canned fruits; the basis for a similar understanding concerning sugar and the base metals had been achieved. At the same time the United Kingdom made more emphatic its repeated warning concerning other Australian exports, explaining specifically that it could not undertake to buy all available supplies of Australian wheat and barley, and could make no arrangements at all for the purchase of wine, apples and pears.

Immediately before the outbreak of war, therefore, it was possible to incorporate in the Commonwealth War Book, the dossier in which pre-war planning was to be epitomised, clearcut plans for the control of the major Australian exports. It was recognised that far-reaching control would

be required in order to ensure priority in supply to the United Kingdom and her allies, to arrange for the disposal of any surplus to neutral countries in ways which would prevent the enemy securing supplies, and to retain adequate stocks in Australia. It was set out that where a marketing board already existed this would be the administrative agency for the exercise of control and in a few other cases a similarly constituted committee would be established.⁶

ORGANISING THE ECONOMY

Supplies for War

The doctrine of "development" is an old story in Australia. Part of the general thinking of all Australians on economic affairs is a not very coherent prejudice in favour of an increase in total "production", especially the introduction of new industries, coupled with the assumption that the natural way to promote such new industries is government aid. In the latter half of the 'thirties there were a number of projects for industrial development which had been discussed and even attempted more than once in the past, and which again became live questions. The revival of interest was partly the normal result of the modest boom conditions of 1937-38 and partly the result of the impact of the programme of defence expansion and in particular of greater local munitions production, circumstances in which it was easy for those directly interested in these projects to associate their plans with the defence programme. Those which attracted most attention and called for decisions of government policy were necessarily those which entailed heavy capital expenditure and consequentially major financial risks, although the full range of industries involved was very wide and varied.

One group of projects related to metals and metal manufactures. Thus there was in 1939 considerable discussion on proposals, pressed especially by the Government of Western Australia, for surveys of iron resources. Another was the production of tinsplate by Broken Hill Proprietary Limited. This was supported by the Tariff Board, and the Government agreed in principle to protective duties, although the establishment of the industry was delayed until after war had begun because of pressure from British producers and the difficulties created in this connection by the terms of the United Kingdom-Australia trade negotiations of 1938.

More ambitious was a plan to produce engines and chassis for motor vehicles. This was formulated in 1936, the proposal then being that the Government should pay a bounty of £30 per engine and promote local

⁶ The War Book, Chapter XVIII, set out the controls to be exercised under the general supervision of the Department of Commerce:—

1. Wool and sheepskins—Committee, representatives of growers, brokers, buyers.
2. Wheat, flour and other cereals—Committee, representatives of industry.
3. Butter—Australian Dairy Products Board.
4. Meat—Australian Meat Board.
5. Hides and leather (not sheepskins)—Committee, representatives of "interested organisations".
6. Non-ferrous metals—Committee, representatives of metal industries.
7. Fresh apples and pears—Australian Apple & Pear Board.
8. Dried fruits—Australian Dried Fruits Board.
9. Canned fruits—Australian Canned Fruits Board.
10. Eggs in shell—Committee, representatives of chief exporting States.
11. Sugar (cane)—Queensland Sugar Board.
12. Wine—Wine Overseas Marketing Board.

production of chassis parts by tariff duties. Local manufacturers were not interested and the Attorney-General, Mr Menzies,⁷ in England in 1938 found that English manufacturers were not disposed to take up the invitation in the absence of what they regarded as essential guarantees against competition in production in Australia. A Tariff Board report later in that year favoured progressive introduction of the industry and the Government invited submission of proposals which came in by March 1939 in great number, but all proved unsatisfactory. Even those from enterprises which had some prospect of successfully undertaking such manufacture required far too great support from the Government, some, for instance, proposing that the Commonwealth provide the whole capital. This led to a clearer statement of government policy by Menzies, now Prime Minister, in May 1939. The Government, he explained, was anxious that engines should be manufactured without delay; the reasons given were defence preparedness, the promotion of industrial expansion, the conservation of oversea funds, assistance to immigration and local employment, and the utilisation of local raw materials—a combination of arguments typical of “development” schemes. He insisted that any company to be assisted by the government should be Australian in character, and the retail price of its product must be reasonable. The Government was not empowered to grant a monopoly of manufacture but it was recognised that if the industry was to be established something must be done to meet the insistence of industrialists on a high degree of protection from competition, at least in the early years of the industry. To this end at a Premiers’ Conference in June 1939 the States were invited to refer to the Commonwealth powers to license the manufacture of cars but failed to do so. When war broke out discussions were in progress between the Department of Trade and Customs and Australian Consolidated Industries Limited in an attempt to find terms on which that enterprise would undertake manufacture.

A further group of projects concerned oil and fuel. Attempts to discover petroleum in Australia or in New Guinea had recurred again and again over many years. There had been a readiness on the part of many Australian investors to believe, against the geological evidence, in prospects of finding oil in the most unlikely places, and a still-surviving romantic conviction on the part of many that the repeated failure to discover usable deposits of oil was the result of the machinations of oversea oil companies. In fact, however, the serious efforts of successive governments to promote discovery by financial and other forms of aid had disappointing results throughout the ’thirties. The *Petroleum Oil Search Act* of 1936 provided for advances to companies engaged in test drilling in Australia and New Guinea, a procedure which failed to find oil and encouraged the promotion of small companies with inadequate financial resources. The relaxation of the conditions for leases in New Guinea and tax concessions were tried in 1939.

⁷ Rt Hon R. G. Menzies, CH. MLC Vic 1928-29; MLA Vic 1929-34; Att-Gen, Min for Rlys and Dep Premier 1932-34. MHR since 1934; Att-Gen 1935-39; Treasurer 1939-40; Prime Minister and Min for Defence Coordn 1939-41; Prime Minister since 1949. B. Jeparit, Vic, 20 Dec 1894.

The net result was that the only companies of any importance left in the field were subsidiaries of the established oil companies and they had not succeeded in locating substantial deposits of oil.

One development along a different line was the establishment by an Act of 1937 of National Oil Proprietary Limited to produce petrol from shale at Newnes, New South Wales. The Commonwealth and New South Wales Governments contributed to the capital cost and the company was aided by tariff protection and the admission of plant and materials free of duty. There were considerable delays in the early stages and it was not until August 1940 that the production of petrol from crude oil commenced. At the outbreak of war, however, the prospect of producing petrol had ceased to be a matter of mere speculation.

This development was more in line with the approach by the Principal Supply Officers' Committee. A Defence Department committee appointed in 1931 to maintain a continuous review of petroleum supply for the Services had been taken over in 1933 by the Principal Supply Officers' Committee as its Oil Fuel Supply Committee. This Supply Committee directed its attention to the development of plans for consumer rationing and negotiations with the oil companies to induce them to maintain larger stocks, the objectives adopted being the maintenance of sufficient stocks to cover three months consumption and the institution in the event of war of rationing sufficiently severe to reduce civilian consumption by one-third.

The Principal Supply Officers' Committee was also responsible for the appointment in September 1938 of the Commonwealth Standing Committee on Liquid Fuels.⁸ The committee's terms of reference included the "coordinating of knowledge concerning the production of liquid fuels, and the use of substitutes therefor, and of furnishing information on methods by which Australia might obtain greater independence in regard to fuel supplies". Its first report dealt specifically with benzol and power alcohol, but also reviewed the liquid fuel position generally, in particular stressing that questions of time and cost meant that emphasis should be put on increased storage and the expansion of substitutes for petroleum products rather than long-term plans for production of petrol, which still had to be found. The best prospects for substitutes were benzol and power alcohol. The oil companies were induced to undertake to hold at their own cost stocks 15 per cent greater than their normal holdings and discussions of ways of increasing production of benzol and power alcohol were pressed ahead.

Meanwhile, with the increasing emphasis on preparations for war, the activities of the Munitions Supply Board and Contracts Board, as well as of the Principal Supply Officers' Committee in the Department of Defence, were moving in directions which converged in the discussions of more general plans for industrial development. The Imperial Conference had

⁸ Members of the committee were:—P. C. Holmes Hunt (Colonial Gas Association Ltd) chairman, E. A. Box (of Sydney), K. Butler (Asst Mgr, Broken Hill Pty Ltd, Newcastle), Dr R. W. Harman (Colonial Sugar Refining Co), Sir David Rivett (Council for Scientific and Industrial Research), A. E. Dawkins (Munitions Supply Laboratories), L. J. Rogers (Commonwealth Fuel Adviser). Secretary: A. C. Smith.

made it clear that Australia must rely increasingly on its own resources for the basic types of munitions and the Government had committed itself to the production of aircraft. The growing demands of the Services for supplies from civilian industry were illustrated by the activities of the Contract Board. This body grew out of 1914-18 experience when the Services had no common purchasing organisation. The navy had its own contract machinery, while the army and later the air force used the Contract Board of the Defence Department. In 1922 the two organisations were amalgamated to form the Contract Board subordinate to the Munitions Supply Board. For the next fifteen years the modest requirements of the Services were obtained through this board and its associated District Contract Boards in States other than Victoria, mainly by public tender. The volume of purchases, while still small, grew during the 'thirties with the expansion of the defence services:

1932-33	.	.	.	£ 5,000,000
1933-34	.	.	.	6,000,000
1934-35	.	.	.	7,000,000
1935-36	.	.	.	8,000,000
1936-37	.	.	.	9,000,000
1937-38	.	.	.	14,000,000

This growth in the scale of its operations brought criticism of the procedures of the board and proposals for changes in its constitution. Thus in July 1938 and April 1939 the Naval Board urged "that armament orders be restricted to a list of firms who are known to be capable of executing the orders efficiently", but this was rejected because of the desirability of encouraging expansion of local capacity to produce service needs. The Advisory Panel on Industrial Organisation secured arrangements by which tenderers might be required to fulfil additional orders in the event of an emergency, while in April 1939 there was discussion of a proposal that the whole procedure should be streamlined by substituting a Director of Contracts for the board, a compromise being reached by retaining the board and making its executive officer Director of Contracts.

As the scale of defence plans grew, the investigation activities of the Principal Supply Officers' Committee reached more widely into new fields of local industry. During 1938-39 it concerned itself with the production of foodstuffs, medical, dental and veterinary stores, with the capacity of the textile, footwear and chemical industries, and with a wide variety of other supplies ranging from searchlights to fire bricks. Increasingly it became concerned with the adequacy of supplies of raw materials and was responsible for compiling lists of materials, the export of which might need to be controlled in the event of war. This particular list illustrated how again and again the Principal Supply Officers' Committee was compelled to revise its conception of the problems of supply for the Services to take account not only of local capacity to meet service demands, but of the impact of this demand on the rest of the economy. When the list of proposed export prohibitions was referred to the Department of Trade

and Customs for comment, they reported that its adoption would mean an almost complete cessation of exports.

In this sort of way there was beginning to emerge a new view of what was meant by "supply" in wartime. In place of a simple notion of orders by the Services for munitions, there was a growing realisation that supply problems involved a very wide variety of goods, many of which could not be regarded as munitions, and that to ensure production of these raised far-reaching questions of the overall capacity of local manufacturing industry, methods of promoting new industries, general industrial expansion, control of the use of materials, including especially their export, delicate questions of industrial relations, and so on. There was as yet no suggestion that the officers concerned foresaw the full-scale controlled economy of 1942-43, but it was becoming evident that the old approach, through administrative machinery within the Department of Defence using Service officers, was not adequate for problems that were looming ahead. Moreover the sheer burden of the increase of work was proving too much for the staff, most of whom had other duties which they might properly regard as making more urgent demands on their time. For the Minister of Defence especially the combination of rapid expansion in the Services, and of the associated, but dissimilar problems of supply, involved too heavy a burden. The necessity to reconstruct the Cabinet following the death of Mr Lyons⁹ provided the opportunity to resolve some of this organisational problem by the establishment of the completely new Department of Supply and Development. Munitions, by now in the forefront of the country's plans for war organisation, became the responsibility of the new department. That considerable importance was attached to the new appointment was indicated by the portfolio being allotted to Mr Casey,¹ to whose seniority and influence in the Government the new department owed much of its success in operation during the few months which were to remain before war began.

The department was conceived as being, in the words of Mr Menzies, "an essentially industrial Defence Department" the need for which was expected to last "for a few years only" and accordingly the Act establishing it was for a period of five years. To the new department was transferred the function of providing supplies for the armed services so that it took over all munitions and allied factories hitherto controlled by the Munitions Supply Board; the industrial annexes then in the process of being established were also transferred as were three consultative bodies: the Advisory Panel on Industrial Organisation, the Economic and Financial Committee, and the Standing Committee on Liquid Fuels. To these it was proposed to add an Accountancy Advisory Panel to ensure that excessive profits

⁹ Rt Hon J. A. Lyons, CH, MHA Tas 1909-20; Premier 1923-28; MHR 1929-39; PMG and Min for Wks and Rlys 1929-31; Treasurer 1932-35; Prime Minister 1932-39. B. Stanley, Tas, 15 Sep 1879. Died 7 Apr 1939.

¹ Rt Hon R. G. Casey, CH, DSO, MC. (1st AIF: GSO 3 1 Div 1915-17; GSO 2 Aust Corps 1918-19.) MHR 1931-40 and since 1949; Treasurer 1935-39; Min for Supply and Develop 1939-40, 1949-50, for Natl Develop 1950-51, for Works and Housing 1949-51, for External Affairs since 1951. Aust Min to USA 1940-42. UK Min in ME 1942-43. Gov of Bengal 1944-46. B. Brisbane, 29 Aug 1890.

were not made by contractors, it being indicated that in general a net return of four per cent was considered fair.

Major importance was given to the manufacture of fighter aircraft under the control of a division of the department. The plan at this stage was that the department would confine itself to the assembly of parts manufactured mainly by State railway workshops. The experience of the Principal Supply Officers' Committee and other investigating bodies of the difficulty of obtaining information about local industry was reflected in comprehensive plans for what the new minister described as "stocktaking of industry and material resources".

The introduction of the bill into Parliament was carefully timed to precede that of the National Registration Bill and its final provisions were concerned with the preservation of the rights of trade unions under the Commonwealth and State industrial legislation for maintenance of trade practices and customs, and freedom of employees to change their employment.

The new minister in his second reading speech stated clearly the basis on which the Government proposed that the department should pursue its primary functions of supply:

The policy of the Government, throughout in the organisation and development of resources of supply for the Defence Forces is not to establish large factories which in normal times would be idle and thus impose a heavy charge on the community, or, on the other hand, to allow an unrestricted development of munition and associated factories on a large scale by private enterprise. It is proposed to adopt the middle course of bringing existing government-owned defence establishments to the stage of the highest possible output and to supplement production by establishing annexes associated with existing industrial establishments. Additional government establishments will be created only in the rare cases in which the industrial annexes will not supply our full requirements, or where industry, as at present organised, cannot be extended or adapted to meet the requirements of the defence forces.²

Manpower

Some twenty minutes after the introduction of the Supply and Development Bill the National Registration Bill was presented to Parliament. The Government saw these two as complementary, Supply and Development being concerned with marshalling the material resources of the nation and National Registration as providing the instrument for the allocation of its labour forces. But the Labour Opposition did not see things in the same light, an attitude which had some justification apart from the reasons moving their hostility, since the plan for a national register, originating in the Defence Department, was never free of the suggestion that its primary purpose was to facilitate conscription.

The idea of a national register took shape in 1938 when officers planning mobilisation orders contemplated the inclusion of a list of reserved occupations. They were persuaded that any list given such formal standing could not keep pace with changing circumstances and that something more

² *Commonwealth Debates*, Vol 159, p. 308, 11 May 1939.

flexible was essential. A draft list was prepared and circulated for comment to various bodies, such as government departments, Chambers of Commerce and Manufactures and the like, and the original list revised in the light of their comments. However, while this procedure may have guided some officials in the technical problems of selecting reserved occupations, it did not provide a document which was at that stage acceptable for administrative use.

Nevertheless these discussions did stimulate an approach along another line, namely the creation within the Department of Defence of the Manpower Committee.³ This was originally to include representatives of the Advisory Panel of Industrialists, and the Trade Union Advisory Panel, as well as the Services and the Munitions Branch, and to have extensive tasks of investigation and recommendation, covering not only the allocation of manpower between the Services, munitions factories and key industries, but also control of wages movements, of industrial labour, of the engagement of labour and industrial disputes. Because of difficulty in inducing the Australasian Council of Trade Unions to agree to the Trade Union Advisory Panel it proved impracticable to establish such a comprehensive committee. Accordingly the department went ahead with a more restricted committee of departmental officers, charged with surveying manpower resources and problems of allocation between the Services on the one hand and munitions and other key industries on the other.⁴

The first thing that occupied the attention of the committee was the scheme for the National Register. There was concern about extensive recruiting in munitions factories and the suggestion that mobilisation might well have the effect of stopping the production of munitions. When Major-General Blamey⁵ became chairman of the Manpower Committee in the Defence Department on 22nd November 1938 he determined to seek an Act for a compulsory register of manpower but at this stage the Government was not prepared to contemplate compulsion and plans were laid for a voluntary register, using local government machinery for administration. These plans went awry when union opposition to the register flared up because the then Prime Minister, Mr Lyons, sought to associate the Australasian Council of Trade Unions formally as members of an industrial panel.

After considerable delay therefore, in May 1939, a compulsory register of all males between the ages of 18 and 64 was determined upon. In introducing the bill the Minister for Defence, Mr Street,⁶ stated:

³ At a later stage the title normally had "Services" prefixed as an informal way of distinguishing it from the Manpower Priorities Board and other later authorities.

⁴ Members were: the Adjutant-General, the Controller-General of Munitions Supply, the Second Naval Member, the Air Member for Personnel, and an Industrial Officer. In the event Blamey was appointed chairman because the Adjutant-General (Sir Carl Jess) was preoccupied with increasing the militia to 70,000. Jess resumed the chairmanship on 12 Oct 1939.

⁵ Field Marshal Sir Thomas Blamey, GBE, KCB, CMG, DSO. BGGS 1 Aust Corps 1918. GOC 6 Aust Div 1939-40, 1 Aust Corps 1940-41; Dep C-in-C ME 1941; GOC-in-C AMF 1942-46. B. Wagga Wagga, NSW, 24 Jan 1884. Died 27 May 1951.

⁶ Brig Hon G. A. Street, MC. (1st AIF: BM 15 Inf Bde.) MHR 1934-40. Min for Defence 1938-39, for Army 1939-40. B. Sydney, 21 Jan 1894. Killed in aircraft accident 13 Aug 1940.

... the objects sought in this bill are, first, a general survey of man power and secondly, the establishment and organisation of a national register for use in preparing for a national emergency.

The purpose of a general survey is to provide an assessment of all skilled labour and man power throughout the country in order to throw light on the adequacy or inadequacy of existing resources. It is unnecessary for me to point out that this is essential in Australia, where industrial organisation is of comparatively recent growth. We do not yet know enough about it to give us complete confidence in the framing of plans to meet a national emergency.

The object of the national register is to ensure that the allocation of man power, in accordance with national requirements in an emergency, may be planned in advance.⁷

The intention was that the record cards in the first instance be used for a statistical survey of the manpower position and should then be returned to State capitals so that the information might be kept continually up-to-date.

There was a vigorous and sustained opposition both inside Parliament and in the trade union movement, primarily to the whole principle of the bill, which was seen as the first step towards military and industrial conscription. The fact that the register was concerned solely with manpower provided an effective weapon, evoking memories of the wealth census of 1915. It was vain for the Government to argue that the Supply and Development Bill provided complete powers of enquiry into property and to point to the futility of the kind of wealth census which Labour was demanding. In the end, though very reluctantly, the Government added provision for such a census, frankly and explicitly for the purpose of allaying hostility to the manpower census. It does not appear that the returns concerned with property, which in any case were of a form likely to be of value only for a capital levy, were ever of any particular use.

Following the passage of the Act⁸ two sets of data were collected during July 1939. Formal appointment of the National Register Board to make use of the information, however, was not made until December 1939 and an Executive Officer was not appointed until the following July.⁹ The effective use of the information collected was dogged by the failure to resolve the problem of whether the register should be used as a purely statistical survey or as an instrument of detailed administration of manpower policy. These were not really two distinct problems, but the thinking out of manpower policy had not then reached the stage where this was recognised, and in the absence of a decentralised manpower administration which might have influenced the handling of the records, the claims of statistical procedure triumphed. Moreover in the first months of war the manpower problem appeared comparatively simple in that the only labour shortage of any consequence was that of skilled workers in the metal trades, and the dominant influence was the drive for recruitment to the Services.

⁷ *Commonwealth Debates*, Vol 159, p. 311, 11 May 1939.

⁸ No. 11 of 1939; assented to 20 Jun.

⁹ Members were: Pay-Cdr H. M. Ramsay (Dept Def Coordn) chairman, Dr Roland Wilson (C'wealth Statistician), H. C. Green (Dept Supply and Develop) as from 22 Dec 1939; E. R. Toms (Executive Officer) as from 1 Jul 1940.

Later the information in the register provided a starting point for subsequent manpower authorities, but on the whole the results were disappointing.¹

Once the Government had officially taken the decision for a compulsory register, the Manpower Committee turned its attention to the List of Reserved Industries and Occupations. Between May and August 1939 this was brought to the form in which it was later published as an operative administrative document. While this process was still going on the committee became concerned about the likelihood of war before the results of the National Register could be available as a basis for controlling enlistment. Accordingly it proposed that officers representing the Manpower Committee should be appointed in each brigade area to advise upon the application of the Reserved Occupations List. Despite the rapid worsening of the situation in Europe it was not until the day before war was declared that Blamey was able to notify Base Commandants of the scheme and of the appointment of officers.

Quite apart from its activities in connection with the National Register, the List of Reserved Occupations and the appointment of manpower officers, the Manpower Committee played an important part by its constant stress on the need to weigh service demands for enlistment against the requirements of munitions and other essential industries. It was Blamey himself who in July 1939 invited the Department of Supply and Development to seek additional representation so that "industry in general" should be adequately considered. In his formal proposal for manpower officers he stressed the risk of a rush of volunteers leading to the enlistment of men of special qualifications whose services would be better employed out of uniform, while the circular to manpower officers a few days after the outbreak of war emphasised to them that "the organisation essentially is one apart from the control of the Services. Its function will require frequently that [the manpower officer] should hold the balance between the service demands and national requirements". During the early stages of the war until its main duties were taken over by the Manpower Priorities Board in 1941 the committee did its honest best to apply in detail this general attitude. It is important to stress this because the activities of the later manpower authorities, and the vaster scale on which they operated, have tended to blur the recollections of the committee's activities and to substitute the legend that it was concerned primarily with securing manpower for the Services. The truth is that such precise thought and administrative appreciation of manpower as there was before the war began, occurred mainly in and through the committee. Throughout most of the first two years, under the chairmanship of Sir Carl Jess,² it administered the scheme which embodied the basic principles of manpower control,

¹ At least one member regarded the failure to introduce some form of personal identity card as an important reason.

² Lt-Gen Sir Carl Jess, CB, CMG, DSO. (1st AIF: CO 7 Bn 1916-17; Comd 10 Inf Bde 1918-19.) Adjt-Gen AMF 1934-39; Chmn Manpower Committee 1939-42. B. Bendigo, Vic, 16 Feb 1884. Died 16 Jun 1948.

although the slowness with which the economy was converted to a war basis caused the later impression that manpower policy was born after Pearl Harbour.

INSTRUMENTS OF PLANNING

The Search for Coordination.

Present and future plans were to be recorded in the volume known as the Commonwealth War Book. With the completion of drafts of many of the chapters the Defence Department became increasingly concerned about the necessity of coordinating the action already being taken by various authorities. It also saw the need for ensuring that plans which had reached the apparent finality of print in the War Book should not thereupon be treated as finished and allowed to crystallise despite changing conditions, but should be subject to constant review and revision. There was evident, moreover, the need to exert pressure on those departments and other authorities which were lagging, especially in the vital supply and manpower chapters which in the end were never completed. Accordingly a National Planning Conference was organised. This grew out of War Book planning and was in its later phases mainly an instrument for coordinating, by discussion, planning by the various departments.

The Defence Department saw the problem of "national planning" from two aspects: planning what to do if war broke out was important and urgent, and so the job of the Defence Department was to seek to draw the threads together; on the other hand there were signs that sectional planning was in danger of getting out of hand. The Advisory Panel on Industrial Organisation was busy on a range of activities of vast scope

... a study of the measures necessary for industrial mobilisation of secondary industry beyond those contemplated by the Principal Supply Officers' Committee which relate to service requirements only. The Advisory Panel have commenced a review of the measures necessary for industrial mobilisation. They are of the view that to be prepared and effective in defence, the potential economic strength of Australia must be mobilised and coordinated in conformity with some definite pre-established plan to meet the needs of both the Defence Services and the civil population.³

The plan aimed

- (a) to prevent delay in the production of munitions;
- (b) to eliminate wastage of resources;
- (c) to ensure that necessary production will not be curtailed by inadequate supplies of essential raw materials and other supplies, particularly including those imported from overseas countries;
- (d) to effect the best possible distribution of the production and transport facilities available in emergency;
- (e) to coordinate governmental purchases;
- (f) to distribute as equitably as possible the economic burdens inseparable from a state of emergency; and
- (g) to cause the least possible dislocation in the normal economic life of the Commonwealth.

³ Minutes of Conference 20 Feb 1939; Defence Dept File 437/401/281.

The Financial and Economic Committee, whose creation is discussed later, was pressing ahead with plans for meeting interruption of shipping, while the Manpower Committee was busy urging the adoption of the National Register. Even though these bodies were within the structure of the Department of Defence they were rapidly acquiring their own momentum, devising their own policies and initiating action which necessarily could pay little regard to other aspects of the overall problem. Some of these did not get beyond the stage of paper plans and in large areas had not got that far. Moreover, as the tempo of war preparations quickened and the range of problems to be handled widened there was increasingly independent action by several departments such as Commerce or Trade and Customs which had their own policies and their own views. At this stage they inevitably saw preparations such as, for example, those concerned with the control of imports or arrangements for bulk sales of exports, as being included among peacetime problems which would remain if war did not come and which would still be there after it. The Defence Department could, according to its lights, see planning for war as the central problem. Old-established civil departments which had for many years administered policies for the promotion of local industries and for developing oversea markets, necessarily found it difficult to see planning for war as other than a secondary complication of their primary activities.

When the conference met for the first time it developed two main themes.⁴ First was an attempt to impose by agreement order and system upon all the various existing or projected authorities for the formulation of policy and the administration of wartime controls. The organisational chart presented at the conference, and reproduced here, represented the Defence Department's scheme for allocating each major problem, as it was then visualised, to an appropriate authority, to be created where such did not already exist, and for prescribing the particular interrelations of these authorities. In the event the chart represented, as accurately as any organisational chart can, what did happen during the first year or so of war.

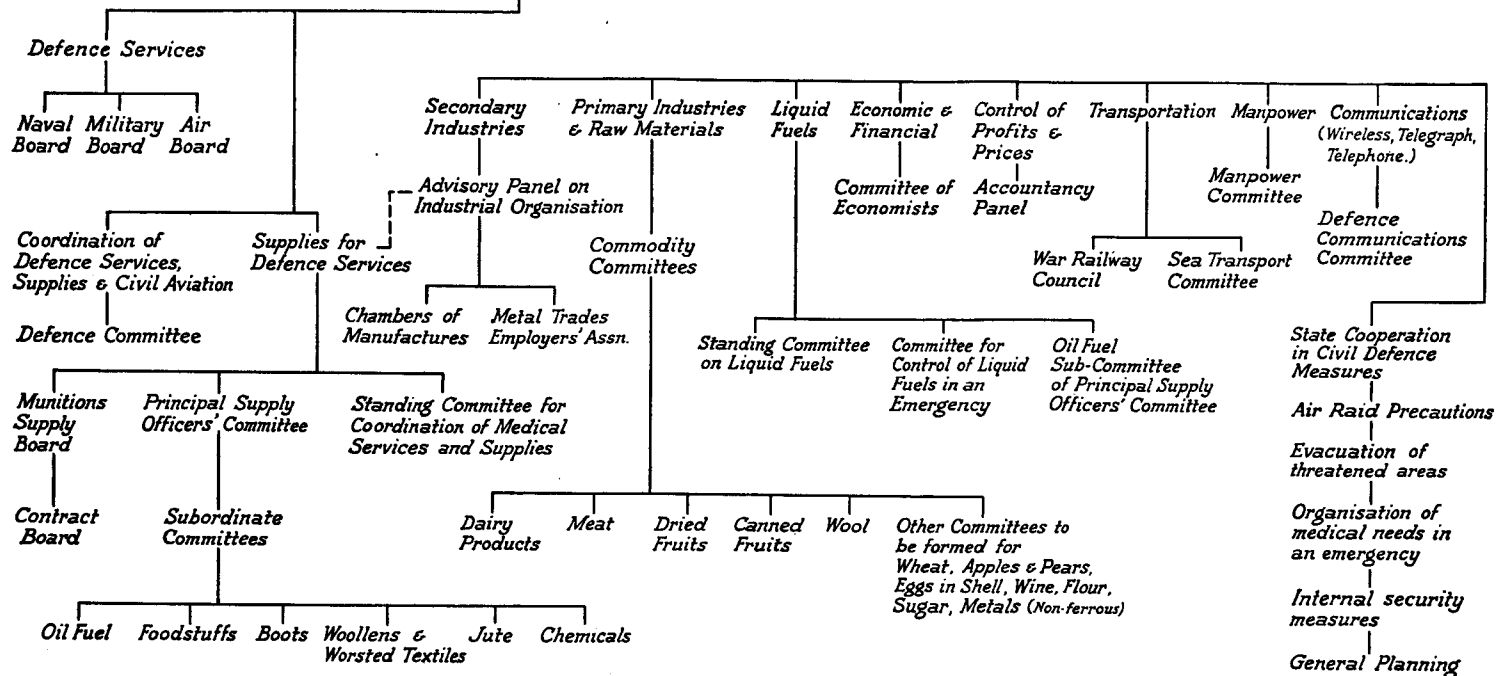
As will be seen, what proved to be lacking was on the one hand the development of specific policies on many of the problems represented on the chart by an administrative authority, and on the other hand sufficient numbers of people with the necessary administrative capacity and initiative.

The second main theme which emerged from the conference was the highlighting of what were at this stage seen as the important problems to be dealt with. The Advisory Panel and the Financial and Economic Committee were actively at work, but there were still many matters to be defined in relation to primary industries, such as the relation between home consumption and what could be made available for export; the completion of machinery for organised marketing within Australia and abroad; the provision of storage; and control of cargo in oversea ships. Various

⁴ 20 Feb 1939. The conference included representatives of the Defence Department, Advisory Panel on Industrial Organisation, Financial and Economic Committee, Manpower Committee, Transport (Sea) Committee, War Railway Council, Principal Supply Officers' Committee, Oil Fuel Subcommittee, the Departments of Trade and Customs, of Commerce, and the War Book officer. The chairman was the Minister for Defence.

Cabinet
Council of Defence

Commonwealth War Book
A summary of action to be taken by Departments



liquid fuel authorities had still to develop plans for local production of substitutes and for additional storage, rationing to consumers, and the supplies of tankers. Railway transport still lacked adequate plans to deal with an emergency and investigations were still proceeding into the adequacy of railway facilities for meeting increased demands of the Services and also civil demands arising out of the inevitable restrictions in coastal shipping, while the Sea Transport Committee had only just reported on the action which should follow the requisitioning by the navy of coastal ships. At this first meeting clearly the chief gap in preparations was believed to be in transport.

There were further conferences in April and May 1939, the principal purpose of which was to receive and discuss reports on the progress being made with the uncompleted chapters of the War Book. By July only the supply and manpower chapters were still missing and the Prime Minister approved of the conference having the status of a national planning standing committee for coordination of departmental action on the British model. The occasion for the change was the formation of the separate Department of Supply, which appeared to create a continuing problem for coordination by discussion. The committee held an inaugural meeting in August but, even before the war came, the situation had changed so greatly that the new standing committee could have had only limited functions. Its terms of reference were stated as "to elaborate a system for coordinating the action of the defence services, Commonwealth departments and the States as specified in the Commonwealth War Book on the occurrence of strained relations or on the outbreak of war and to provide a means for keeping constantly up-to-date the details of the scheme worked out",⁵ but the Defence Department emphasised to other departments that the "creation of this standing committee would not affect in any respect the continuance of national planning conducted by each Commonwealth department and defence service in connection with its function and War Book responsibility".⁶

Already, in July, supply planning had been transferred to the new Department of Supply and Development, the leading example of the way in which problems were passing from paper planning to administrative action, and in which major groups of problems were for this purpose being transferred to authorities outside the Defence Department. Such developments, of course, were accelerated by actual war. Inevitably the second meeting of the standing committee planned for early September was abandoned. Its memorial was the War Book, its legacy the problem of overall coordination of wartime economic policy, never to be finally solved.

The Financial and Economic Committee illustrated the way in which in the pre-war period most of the important moves for the establishment of administrative and planning agencies for the economic side of the war

⁵ Defence Dept File 14/303/1.

⁶ Secretary, Defence Dept, to departments, 1 Aug 1939; Defence Dept File 14/303/1.

sprang out of the awareness of the Department of Defence of problems which went beyond the demands of the Services, and from the pressure of that department for something to be done. Originally conceived as a relatively large inter-departmental committee, representing, apart from the navy, all the then existing organisations for economic planning, it was eventually created in December 1938 as a small Defence Department committee of three economists,⁷ appointed initially in their personal capacity, charged with the survey of "effects on the national financial and economic structure of the loss of command at sea and the closing of the trade routes".⁸

At this stage the basic assumption of all planning was that Japan would be in the war as an enemy from the beginning, and that it would take some months for the arrival of a British fleet which, from its base at Singapore, could hold trade routes open. Accordingly the function of the committee appeared both important and urgent. It concentrated upon the analysis of imports "with the object of classifying them according both to the degree to which they are necessary for civil purposes, and the extent to which home-produced substitutes could be found".⁹

Until it received a directive from the Cabinet on the point, the committee was forced to visualise various possible contingencies ranging from the optimistic assumption that a British fleet would be at Singapore "as soon as possible" to contain the Japanese navy and limit it to intensive raiding, through to the extreme possibility of British loss of the command of the sea.¹ At the end of June the Cabinet told the committee to assume that Singapore would not be relieved for six months, a contingency in which the committee had estimated that overseas trade would be reduced by 10 per cent in the first three months, by 20 per cent in the first year, and by 40 per cent over three years with rather more severe reductions in coastal trade.

On the basis of these estimates the committee put forward a series of recommendations of principle for the control of imports, the building up of stocks, and the readjustment of domestic industry. It suggested grouping all imports in four degrees of priority, the last being goods the import of which should not in any event be permitted, and foreshadowed a system of control based upon the allocation of shipping priorities in conjunction with discriminatory allocation of foreign exchange. It believed that the objective should be to build up at least three months' supply of raw materials which required sea transport, stressing in particular, oil, rubber, jute and electricity generating equipment. On the reorganisation of industry within Australia it outlined enquiries still to be made before recommendations were possible.

⁷ Professor L. F. Giblin, L. G. Melville, Dr Roland Wilson.

In later years its full title was "Advisory Committee on Financial and Economic Policy", but almost from the beginning it was known throughout the administration as "F. & E."

⁸ Minutes of National Planning Conference, 20 Feb 1939.

⁹ Giblin to Secretary, Defence Dept, 19 Jan 1939.

¹ First Report, 15 May 1939.

The committee continued detailed enquiries into probable shipping problems, first for overseas trade and then for coastal shipping. In the course of these enquiries, the committee stressed the necessity for an administrative organisation to develop the detailed application of principles of import restriction, and to administer it. The logical organisation was the Department of Trade and Customs, which naturally was the main single source of information, and had the organisation for control of imports, and in addition had some experience in the working of import licensing under the trade diversion policy attempted in 1936.

Along another line, it was clear that the question of shipping involved many other things than the control of imports, and other existing or planned agencies were concerned with particular aspects of the problem. This realisation led to the adoption in a modified form of the proposal, made by the Financial and Economic Committee in its first report, for an import control committee. Under the name of Advisory Committee on Seaborne Trade² the committee, representing the Departments of Trade and Customs, Commerce, Treasury, and Supply and Development, and responsible to the last-named, was appointed early in August 1939.

The association with the Department of Supply and Development arose from the transfer of the Financial and Economic Committee itself to that department from the Treasury in July, and from the relationship between import restriction and the curtailment of non-essential production within Australia. As yet this indirect method was the chief instrument envisaged for control of non-essential production and the main pressure for the transfer of resources to munitions and other supply industries came from the Department of Supply and Development. Nevertheless the control of imports was traditionally a function of the Department of Trade and Customs which in any event had to administer the policy.

While the Department of Supply and Development was necessarily pre-occupied by the expansion of munitions and the placing of growing supply contracts, the requirements of an import control policy appeared to demand solution before Supply and Development was in a position to formulate its policy in that regard. Inevitably, therefore, there was a good deal of friction from which the committee was never fully emancipated. It had been born only a few weeks before war, and it was some time after the outbreak that any advance was made upon the work of the Financial and Economic Committee.

The Commonwealth War Book.

The War Book may be taken as a convenient summary of the Australian approach to economic preparations for war at a time when such preparations were being taken most seriously. It does not, of course, tell the whole story. Behind its general directives lay—or should have lain—departmental war books which filled in the details; in those departments which took war planning seriously there were groups of officers who had been

² This name was that finally used; the proposal to the Cabinet spoke of an Overseas Trade Committee.

analysing and discussing the problems likely to be met and whatever might appear in the War Book or in other documents they must be presumed to have been as well prepared as they were capable of being. Some departments (the Treasury for instance) gave away as little as possible in the War Book while others on the civil side were clearly more concerned with the demarcation of fields of operation and declarations of rights of control than with the objectives of policy; in neither case is it safe to assume that no further thinking had been done. In two vital fields entire chapters were missing, that on manpower measures being "not yet available" and that on supply measures "not yet completed", implying, correctly, that a good deal of preparatory work had been done. Yet it was in precisely these fields of war economy in which the War Book left gaps that, during the first two years of war, policy was hesitant and confused, action was deferred and enthusiasm frustrated. With some qualifications, less important than they might seem, the War Book did accurately reflect the nature and quality of economic preparations for war.

The preface declared very correctly that "The War Book is compiled on the basis of a war which would demand the employment of all available resources" ("total war" was not yet part of the newspaper-derived popular vocabulary). But the sequel discloses that it was a war book for a war in which Australia's part would be as in 1914-18, and "employment of all available resources" was to be read as meaning that on the economic side "the lessons of 1914-18" had not been assimilated except to the extent of seeing how the economy might have been better organised for that war. For what the War Book assumed as a "total war" was primarily a fighting war (with the emphasis on fighting at a distance). Behind the troops were envisaged enlarged local production of munitions and the export of food-stuffs and raw materials to Britain and her allies as the main economic implications.

The chief qualification was a number of references to possible war in the Pacific, seen as taking the form of remote war which would affect Australia primarily by disrupting shipping, or of invasion. But the economic implications of either kind of Pacific war were seen primarily as creating acute internal transport problems because coastal shipping would be greatly reduced or even eliminated, and raising serious difficulties for industries dependent on export markets.

There was a further qualification in that chapters on manpower and supply were in preparation. That these were not empty statements is indicated by the National Register and the institution of a Department of Supply and Development. But effective planning in these fields proved no exception to the generalisation that economic preparation was directed to solving what had been the problems in 1914-18.

There was yet another apparent qualification in the existence, as part of the War Book plans, of a draft National Security Bill and National Security (General) Regulations. But the very sweeping nature of the economic sections of these regulations and especially the key Regulation 59, was indicative of vagueness and hesitation rather than awareness of

the comprehensive reorganisation and direction of the economy implicit in "employment of all available resources". The widest powers were to be taken because the objectives of policy and the precise powers required for their attainment had not been analysed—or, if analysed, had not been accepted.

For its economic plans the War Book evidently drew on three sources. First were the "lessons of 1914-18", which appeared most clearly in the confident foreshadowing of the general lines of export contracts with Britain. Australian assumptions that problems would be much the same chimed with British expectations so well that the main principles of contracts were already agreed upon. Second was the adoption or adaptation of British planning in cases where this was the most obvious procedure. Thus the provisions for economic warfare were explicitly derivative from the plans of the Committee of Imperial Defence, while war risk insurance proposals assumed that the British scheme would be utilised by Australian shippers. Third was independent thinking about the economic problems likely to confront Australia at war in a world a generation older than 1914; whatever may have gone on in departments, in the War Book this was conspicuous mainly by its absence.

This was perhaps excusable, certainly understandable, in the context of Australian social and political trends of the 'thirties. But some thinking had been initiated and there was much informal and public controversy; general issues had been raised in connection with specific policy proposals (plans for car production, the Department of Supply and Development, and the less-public arguments about the merits of stock-piling of key materials, to take random examples). What was surprising was not the gaps in the War Book but the two years of war which would be required to fill them. One would have expected that the silence of the War Book would have been an advantage. Planning at the departmental level had been initiated but had not been frozen into War Book formulae which could have been restrictive of initiative,³ but the alternation of the absence of that initiative and its frustration provides one more example of how the political unreadiness of Australia for war, and the disunity of the community in facing a threatened war, were not readily changed by the reality of actual conflict.

A few examples will illustrate the nature of War Book economic plans. Control of civilian consumption (if one ignores what might have appeared in the missing chapters) was considered solely in relation to the inescapable consequences of military operations. On the threat of war the Department of Supply and Development was to complete preparations for the rationing of motor spirit—since, with complete dependence on imports, probable shipping shortage, control by the Imperial Oil Board of all Empire tankers and possible isolation by war in the Pacific, supplies might prove inadequate

³ It is worth noting that the most clearcut and specific economic plans were those least section-alised into formal directives. The continuous descriptive narrative relating to export contracts sets out a definite objective and means to achieve it; the curt, staccato tabulation of instructions to the Treasury on finance was nearly empty of substantial content, at best directing that elementary issues be "considered".

even for military purposes. Definite and precise provision was made for control of the carriage of goods by sea—for 1914-18 experience warned of shipping shortage, and it was assumed that the Australian Navy would requisition ships on the Australian register. Commonwealth control of railways was expected to be necessary, at least if invasion threatened, because of heavy military movements, and to replace transport by coastal shipping. An incidental reason for control of the movement of road vehicles (required mainly in connection with military movements) was the possible necessity to maintain essential civil supplies. In short, a variety of transport difficulties which might hold up civilian supplies was foreseen, but only as the direct result of military operations.

Similarly in the outline of export controls the maintenance of adequate supplies for the Australian market was stressed, and a special role in this connection was assigned to State departments of agriculture. There was nowhere any foreshadowing of deliberate curtailment of civilian consumption as a positive policy to divert resources to war activities. Men were to be enlisted voluntarily, or offered jobs in munition factories, ships were to be requisitioned and military transport was to take priority on railways, equipment and supplies were to be impressed by the army if necessary, certain exports might be acquired; consequentially civilian consumption might suffer and action might be necessary to minimise that result. But deliberate restriction of consumption was not envisaged, unless it could be read into the financial arrangements.

So to read it is extremely difficult, for, in the "precautionary stage", the entries for finance were instructions to the Treasury, reading in their entirety:

Voting and Provision of Money

- (a) Consult departments concerned as to immediate requirements for war finance and obtain the necessary Parliamentary authority.
- (b) Prepare a War Loan Bill and consider arrangements for temporary borrowing.
- (c) Review Budget position and consider reduction of unessential expenditure and increase of taxation.
- (d) Arrange meeting of Loan Council.
- (e) Consider appointment of War Finance Committee.
- (f) Consult with Commonwealth Bank as to finance generally.

Support of Credit

- (a) Consult with Commonwealth Bank.
- (b) Ascertain from Dominions Office action being taken by British Treasury.

No correlated action by other departments was provided for, and for "war stage" the only instruction was "action as in Part I if not already taken". There were no "general observations" in the finance chapter. There was, it is true, one in another place reading: "The execution of mobilisation cannot be delayed on account of financial formalities, and it is essential therefore that it should be realised that the decision of the Government to order a mobilisation will automatically authorise the incurring of the necessary expenditure." But this was in the chapter on air force measures, and is to be read as the air force telling its officers to stand

no nonsense about money. Yet there was nothing else to suggest some idea of a financial plan. It would be naïve to assume that Treasury officers were so innocent or so incompetent as to have thought no further; in fact practically every financial measure adopted during the war was the subject of some public discussion even before the war began. Nor is it sufficient to assume, as has been suggested, that the Treasury did not take the War Book seriously and kept its plans to itself. It took the war, when it came, seriously enough, but its plans, whatever they may have been, were no more acceptable in practice than as entries in the War Book.

It would be tedious to extend the catalogue to support the point that, whatever individual ministers or officials may have thought out, accepted policy as embodied in the War Book had virtually nothing to say about the economic problems of war except where they appeared likely to be the same problems as those of the earlier war.⁴

⁴ A senior Commonwealth official told the writer: "When war came I locked my copy of the War Book away in a cupboard. It was just b—— irrelevant."

CHAPTER 2

PRICE CONTROL

IN a foreword to an official booklet on price control published in 1940 the then Minister for Trade and Customs, Senator McLeay,¹ declared that "It was natural that the first form of control to be established was price control."² One might quarrel with claims for priority amongst a variety of controls the legal provisions for which were all dated 23rd August 1939, but, if we except restrictions on foreign exchange transactions, control of prices was the first control fully developed administratively, and effectively operative, from the outbreak of war. More meaningful perhaps was the minister's acceptance of the naturalness of price control.

The explanation of the speedy introduction of price control and of the political and public attitude to it lies in bitter memories of experience in and after the 1914-18 war. The Premier of New South Wales, Mr Mair,³ in a memorandum dated 13th September 1939 to his Cabinet, put succinctly a view widely held in vague and confused form: "The *Necessary Commodities Control Act* of 1914 was merely farcical in its economic effects and its only advantages were of a narrow political character. The War Precautions Regulations as to prices (1916-19) and the Prices Adjustment Board which it set up were little or no better. Both were failures . . . Both the range of commodities with which they dealt and the way in which they dealt with them were too limited to have any appreciable effect in preventing price chaos, price inflation, industrial strife and all its aftermath of deflation, and embittered industrial relationships."

There was, moreover, a continuing "price-consciousness" arising from a variety of schemes for maintenance of domestic prices of primary products, and from the relationship, familiar to every Australian, between the basic wage declared by industrial tribunals and the cost of living index. Public servants enjoyed a "cost of living adjustment" to salaries, while in Queensland a limited system of general price control had operated continuously since 1920, although its effectiveness was narrowly circumscribed by the absence of such control in other States and the constitutional requirement of complete freedom of interstate commerce. It was "natural", therefore, that in the last weeks before war began, control of prices to maintain them at "reasonable" levels, and to prevent "profiteering", should take high priority among the measures planned in haste to remedy the failure to prepare an economic war book.

The first foreshadowings of price control came early in 1939 with hints of a price-fixing tribunal and the establishment of an advisory panel of

¹ Hon G. McLeay. Senator 1934-47 and since 1949; Vice-Pres Exec Council 1938-41; Min for Commerce 1939-40, for Trade and Customs 1940; PMG and Min for Repat 1940-41, for Supply and Development 1941; Min for Shipping and Fuel since 1949. B. Port Clinton, SA, 6 Aug 1892.

² *Price Control under the National Security Act 1939-40* (Government Printer, Canberra, 19 Aug 1940).

³ Hon A. Mair. MLA, NSW 1932-46; Min for Labour and Industry 1938; Treasurer 1938; Premier 1939-41. B. Melbourne, 1889.

accountants to check profits in munitions; the Commonwealth in May took power to prevent profiteering in armaments. But it was not until the last days before war that action was taken to provide for general price control. The Defence Regulations of 23rd August provided in general terms:

for regulating, restricting or prohibiting the production, treatment, keeping, storage, movement, transport, distribution, sale, purchase, use or consumption of essential articles, and, in particular, for controlling the prices at which the articles may be sold.⁴

This provision was continued when these regulations were re-enacted as the National Security (General) Regulations.⁵

Meanwhile immediately after the outbreak of war a Cabinet sub-committee was appointed to consider price control and on 7th September recommended that power be taken to control the prices of all commodities and services. To cope with immediate problems while the principles and organisation of this control were worked out a prices order was issued on 8th September under the original Defence Regulations, declaring that the maximum prices of certain goods should not, without approval, exceed those prevailing on 31st August.⁶ The order covered both wholesale and retail prices, and the main articles were cotton, silk and jute goods; fuel and lubricating oils; tinned and aluminium plate and sheet metal; all paper products; rubber in various forms; a wide range of building materials; tea, coffee and cocoa; fertilisers and tractors. Application might be made to the Minister for Trade and Customs for authority to charge a higher price "by reason of any additional costs necessarily incurred in relation to any such essential article". The fact that the order had to be amended the following day illustrated the haste with which the plan was developed and implemented. The amendment provided that the fixed price for fuel and lubricating oils should automatically include the proposed increases in customs and excise duties then before Parliament; and the opportunity was taken to add leather to the list of controlled goods. Later, other goods were added—drugs and chemicals, sugar, medical supplies, linseed oil, wire netting.

These actions were to hold the fort while the long-term comprehensive plan recommended by the Cabinet sub-committee was developed. The Prime Minister announced on 7th September to the House: "The Commonwealth, under the long-term plan, will take power to control the prices of all commodities. There will be a central Commonwealth controlling authority, consisting of a Commissioner and two assessors. So far as is possible it is desired that the existing machinery of the State Governments, amplified or modified where necessary, shall be used to give effect to the decisions of the Commonwealth authority."⁷ Two days later a Premiers' conference in Canberra agreed to cooperate.

⁴ Statutory Rules 1939, No. 73.

⁵ Statutory Rules 1939, No. 87, 13 Sep.

⁶ *Commonwealth Gazette*, No. 68.

⁷ *Commonwealth Debates*, Vol 121, 7 Sep 1939.

Resolutions agreed to were that

- (i) existing Commonwealth and State instrumentalities for fixing prices be as far as possible retained, subject to the determination of the Commonwealth price-controlling authority;
- (ii) the Prices Commissioner in Queensland be appointed as agent for the Commonwealth in Queensland;
- (iii) in the five other States, Prices Commissioners be nominated by the State Governments for appointment as agents for the Commonwealth;
- (iv) the agents of the Commonwealth in the States exercise such powers and functions as are conferred on them by the Commonwealth and consult with State instrumentalities dealing with fixation of prices, and make recommendations to the Commonwealth price-controlling authority concerning the prices of commodities referred to the Prices Commissioner by the Commonwealth Government;
- (v) State price-fixing authorities be free to take such action as the State Governments think fit outside the price-control scheme in operation by the Commonwealth;
- (vi) the cooperation of trade associations and of consumers in all States be sought in implementing the scheme of price control;
- (vii) the Commonwealth Government consider requests by the States to refer to the Commonwealth price-controlling authority the question of fixing the price of any commodity specified by the State;
- (viii) the scope of price fixation include rationing of commodities where supplies are deficient;
- (ix) the scheme of price control include the consideration of quality in relation to the price charged, and when the Prices Commissioner is satisfied that goods of inferior quality are being sold at excessive prices he may determine a lower price for such goods.

It was in accordance with the terms of this agreement that three weeks later the National Security (Prices) Regulations were issued.⁸

The administrative organisation adopted was the creation of the Prices Branch within the Department of Trade and Customs, with headquarters in Canberra, headed by the Commonwealth Prices Commissioner, Professor Copland.⁹ In each State a deputy commissioner was appointed, on the nomination of the State Government, with independent powers of investigation and recommendation, but otherwise exercising only delegated powers.¹ A formidable array of advisers and advisory committees was built up from among representatives of interested groups and organisations; and care was taken to develop good relations with State bodies concerned with prices—State marketing boards, wheat products prices committees, the New South Wales Industrial Commission, transport authorities.

The commissioner was clothed with drastic and far-reaching powers to investigate, compel evidence and production of documents, enter premises for the purposes of search and the like. It became an offence to sell or to buy at prices other than those fixed by the commissioner; or to refuse

⁸ Statutory Rules 1939, No. 110, 28 Sep.

⁹ Sir Douglas Copland, KBE, CMG, Prof of Econ, Univ of Tas 1920-24; Prof of Comm and Dean of Faculty, Univ of Melb 1924-44; C'wealth Prices Commr 1939-45; Prof of Econ, Univ of Melb 1944-45; Aust Min to China 1946-48; Vice-Chancellor Aust National Univ 1948-53; Aust High Commr in Canada from 1953. B. Timaru, NZ, 24 Feb 1894.

¹ Initially those appointed were: N.S.W., J. E. McCulloch; Victoria, H. E. Bishop; Queensland, E. H. Lindsey; South Aust, Lt-Col W. F. J. McCann; Western Aust, W. A. White; Tasmania, L. C. Johnson; Northern Territory, J. A. Watson; Aust Capital Territory, M. E. McCarthy.

to sell, except on reasonable grounds, at the fixed price; or to vary quality or size of unit, again subject to the commissioner's approval or to evidence that the variation was an improvement. Attempts to "corner" supplies carried the threat of an additional penalty in the form of forfeiture of goods held. Books and accounts had to be kept for inspection and lists of fixed prices were to be exhibited.

The formal procedure adopted was that power to "declare" goods—services were not covered at this stage—was reserved to the Minister (for Trade and Customs). Once a declaration was made the Prices Commissioner "in his absolute discretion" acquired power to fix maximum prices at which such goods might be sold. In doing so he might fix prices varying according to quality, quantity or conditions of sale; according to locality; on a sliding scale; in terms of a percentage addition to cost; "on a condition or conditions"; and, as a final assurance of ability to meet all conditions, "according to or upon any principle or condition specified by the commissioner".

Political responsibility for price control was preserved by two devices. First, goods did not come under control until they were "declared", and declarations were made by the minister. Secondly, the minister might require the commissioner to review any decision, and for that purpose might suspend the operation of an order by the commissioner for a maximum period of twenty-eight days, during which time the previously prevailing maximum price (if one had been fixed) was to be the legal maximum. But once the commissioner in such case had varied or confirmed his decision, the minister's power to intervene ceased.

As issued, the regulations related to goods only, but within a few days they were extended to cover "services".² The occasion for this change was an increase of interstate shipping rates by twenty per cent, which, immediately on being "declared", were reduced to ten per cent above the pre-war level, a figure confirmed after investigation.

THE APPROACH TO PRINCIPLES OF CONTROL

This was, then, the basic structure of price control. It did not, it will be noticed, attempt to cover everything. Many special groups of prices were dealt with by other means and agencies—wages, rents, real estate prices, prices in government contracts and the like—while even within the broad field of goods and services regularly traded action was only taken by "declaration" when the need became clear, although a good deal of informal pressure against increases in price of undeclared goods and services was achieved because they could always be declared.

It is fortunate that there are contemporary statements by the commissioner of the approach he adopted towards the exercise of his vast powers and virtually unfettered discretion. In an address in June 1940 he declared: of course the objective in everybody's mind when war broke out was to prevent profiteering. One of the things to do in the first few days was to think out a reasonable definition of "profiteering" that would hold water in a legal order. If

² Statutory Rules 1939, No. 114, 5 Oct.

you try to define profiteering in that sense, you will find that it is quite impossible, because profiteering is a relative term. It is relative to some basis or standard that you have in your minds. We all know what we mean by profiteering, but, when it comes to putting it into a legal definition it is not so easy. Being baffled by a straight and simple definition, I turned to consider another approach to the whole problem, and took pre-war prices and pre-war profits as the standard. . . . From this we arrived at the idea that any rise in prices above those standard prices had to be justified by increased costs. The objective was to limit the rise in prices to the increase in costs due to the war. . . . We arrive, therefore, at the simple proposition that you add to your basic price your added costs. If your basic price was unsatisfactory on August 31, you have redress, because you can approach the authorities and obtain a variation of that price, but that problem must be kept distinct from the problem of adding costs. You can also obtain a variation of your gross profit margin, which is another source of relief. . . .³

This approach implied what the commissioner clearly had in mind, that effective price control required much more than price control. Some kinds of increased cost were not and could not be under Australian control—the landed costs of imports for instance; other cost increases would prove too difficult to control, or were desirable on other grounds at the expense of price increases—sales taxes or some kinds of wage increase, for example. All such increases had to be recognised as *prima facie* reasons for increases in prices, and the function of price control was to determine what increase in price was warranted by a known increase in costs. This was not a simple matter of registering an increase in costs, but a much more complex question of assessing the degree of price increase—raising, for example, the legitimacy of the basic pre-war price, the pre-war profit margin and a host of other questions. Apart from the negative function of refusing price increases not due to changes in costs (that is, increases exploiting scarcity in one form or another) the major work of the Prices Branch consisted in the application of this simple formula by devising principles applying to various classes of cases, and dealing with individual cases according to those principles.

But if that were all, price control would not prevent rapid price increases. The commissioner's approach was that many forms of cost were actually or potentially under control—wages through industrial tribunals, interest rates through the Treasury and the Commonwealth Bank. Financial policy and other factors operating on costs generally were the responsibility of the Government. In respect of these the commissioner could hope that they would be administered in ways which would minimise cost increases, and his personal prestige and position (for example as member of a number of coordinating and advisory bodies and later as Economic Consultant to the Prime Minister) ensured that the price control aspects of policies primarily relating to wages, finance, export trade or the like would be taken into account. These matters are considered elsewhere, but here it may be noted that as the war became more serious and the forces making for cost increases grew in strength, the controls over various types of costs increased in number and intensified in operation.

³ "Price Control in Australia", Address to Victorian Branch, Economic Society of Australia & New Zealand, 28 Jun 1940, reprinted in *Australian Accountant*, Jul 1940, and also as a separate pamphlet.

Within the limits of his own province, however, the commissioner could not accept all increases in cost which, despite other controls, did occur. It will be seen how, later, the commissioner had to rule that only wage-increases approved by a recognised tribunal could be allowed to influence permitted prices. Otherwise, clearly, no employer had any incentive to resist wage-increases, or other rises in costs.

Consistently with his general approach, the commissioner in the early stages sought to avoid fixing retail prices. "To be effective," he asserted, "price control must start with basic commodities, and the system should operate to check any unnecessary additions to costs as these commodities pass through the processes of manufacture and distribution to the final consumer. Retail prices are best controlled by limiting price movements earlier in the processes of production and distribution. It is less difficult to control prices the further back the scale we go because the variety of commodities, methods of production and of distribution are more limited in scope than in the retail trade."⁴ His second, administrative, reason explains another basic distinction made in this first phase of control. The number of cases of specific prices fixed was kept as small as possible and a formula devised to apply to other cases of declared goods. "The fixation of specific maximum prices is practicable and effective in respect of many classes of goods, and indeed may often be essential, but as a general principle upon which to function it has many defects. It is definitely unsuitable for many classes of transactions and goods, for example, retail sales and seasonal goods. The administrative and investigatory work which it would entail would be overwhelming. The result would be great expense to the Government and much undesirable delay and interference with the operations of industry and commerce. On the other hand, the elaboration of a general scheme or set of principles which would apply to all business is also impossible."⁵

Therefore, according to circumstances, two principles were followed. The first was that of specific determination of a particular price, illustrated by Prices Regulation Order No. 1 which set the prices of hides at defined percentages above the prices of 1st September 1939.⁶ The second was the set of principles established in Prices Regulation Order No. 2, issued the same day, to apply to all other declared goods, that is those not the subject of a specific determination.

The central theme of this order was the "averaging" of costs of old and new stock, a procedure originally suggested by the Adelaide Chamber of Commerce. With certain exceptions of which the most important was retail sales, broadly a seller was required to limit his price to the average costs to him of stock in hand and stock newly received plus gross profit calculated on the *average* cost at the rate prevailing on the outbreak of war. Necessarily, there were complications: for example, if the seller held no old stock or had not sold similar goods previously and therefore

⁴ *Price Control under the National Security Act 1939-40*, p. 10.

⁵ *Price Control under the National Security Act 1939-40*, p. 25.

⁶ *Commonwealth Gazette* 5 Oct 1939.

had no basic gross profit margin. This particular problem was met by prescribing cost of new stock plus margin on similar goods sold previously or a margin fixed by the commissioner. Special provision was made for proprietary lines normally sold at uniform prices throughout Australia, by which "average" cost to importer or manufacturer determined the proportionate increase in selling price. It was also provided that the commissioner might determine gross profit margins for the purpose of any of these calculations. Retail sales were excluded from averaging, approved price being simply cost to the retailer of the particular goods plus gross profit margin at the pre-war level. Subject to these exceptions and qualifications, sellers of declared goods not brought under a specific price determination were to apply this general "average" cost principle themselves.

The commissioner explained: "It is a compromise between the demands of some traders that prices should be based on replacement cost, and those of the public that all goods in Australia at the outbreak of war, or then coming forward at old prices should be sold to the consumer at a normal profit on cost; or, in other words, at the old prices irrespective of replacement cost. Under the peculiar conditions of wartime neither principle could be permitted to operate in full. Replacement cost would mean an unnecessarily severe shock to the economy and unnecessary distress to the consumers. It would also provide a convenient cloak for the unscrupulous trader. On the other hand, strict adherence to pre-war prices would have severely curtailed the working capital of all firms buying on a rising market and thus made it difficult to finance the incoming stocks."⁷ He was enthusiastic as to its simplicity. "The averaging system actually does work automatically. You cannot get an error in it unless your arithmetic is wrong. . . . It could be worked individually, it could be worked in an industry as a whole by representative bodies, it could be worked in a vast range of commodities by the simple method of index numbers with which we are all familiar. It is possible to take 'indicator' lines and 'indicator' firms and to apply to the whole trade the results to be found in those representative lines in those representative industries, and I think it is because of its flexibility that it has been successful so far."⁸

One of the disadvantages of the simplicity in administration of averaging should be noted: that consumers were not in a position to detect breaches. The legal price depended upon cost conditions not known to any but the business concerned (and a Prices Branch investigator on occasion), and a consumer could not know whether the price asked was legitimate or not. Moreover cost conditions would vary between businesses and, if each sought its legitimate maximum, prices for identical goods would be at different levels in the same market. This latter situation, which initially made many consumers suspect breaches which had not occurred, later by familiarity led them to disregard divergences which were plain evidence

⁷ *Price Control under the National Security Act 1939-40*, p. 29.

⁸ "Price Control in Australia", Address, 18 Jun 1940. The averaging system was first applied, as from 9 Oct, to a long and varied list of goods, by Prices Regulation Order No. 4, *Commonwealth Gazette*, 7 Oct 1939.

of breaches. But in the early months of the war divergences between businesses were of little importance because the rise in costs was mainly the result of oversea conditions and, with slight time-lags, fairly uniform for all businesses.

A further point to note is that averaging slowed up the effect of cost increases on price, but no more than that. So long as costs rose steadily and supplies of new stock came in at a reasonable rate, fixed price always lagged behind cost of new stock. If the increase in costs were to level off at a permanently higher figure, a short period would eliminate the time-lag. If supplies became short so that old stock was nearly or quite exhausted before a new supply arrived, averaging would automatically cease to apply. In the first two years of war, conditions favourable to averaging prevailed generally: costs were rising but on the whole at a modest rate after the first upward leap in the landed costs of imports; devices basically similar in principle to averaging were, as will be seen, adopted to damp down the effect on local markets of increased export prices; domestic costs rose slowly enough to check the influence of the external cost rise; while shortages were limited to a fairly narrow list of commodities.

This is to set the achievements of the first phase of price control in perspective, not to deny their reality. Averaging could only retard, not prevent, the effect of rising costs on prices, but during the two years in which this was capable of achievement, it was worthwhile. But on a longer view the more important achievements of the system did not arise from averaging. Rather they were: first, establishment of the principle that approved cost increases were the justification for price increases and, thereby, to the extent that sellers accepted the principle, limiting increases deriving from scarcity alone; second, the posing, for solution by other means, of the issue of control of costs—by general financial policy, arbitration courts, etc.; third, the establishment of the principle that, in general, pre-war gross profit margins were legitimate but should not be increased. Initially this last was a retarding weapon, although with an upward trend in costs it was inevitable that later the effect of adding constant percentages to rising costs should be more important; in the sequel this became the central point of the first major revision of policy.

These were impressive achievements but it could have been safely predicted that the devices of Prices Regulation Order No. 2 would demand, as the war effort developed and cost increases led to more widespread and larger increases in price, elaboration in the form of a series of sub-principles to fit the complexities of varying types of cases. It could be foreseen, too, that a major war effort would produce intense pressure on local costs, so that the effectiveness of price control would come to depend primarily on the financial policy of the government and on the effectiveness of limits on wage increases. For two years these latter were threats rather than present dangers, and the main story of price control during those years is of increasing elaboration of its principles and increasing deftness in administration.

THE PRINCIPLES IN APPLICATION

Implementing Prices Regulation Order No. 2 required a large number of further orders. Many of these were simple applications to particular cases. Of necessity there had to be, in a large number of instances, orders fixing specific prices for goods, either as a class, or in a locality, or as sold by a particular seller. Broadly, specific prices in absolute terms were fixed for standardised commodities, or where the complexities of the trade required this. In most other cases prices were expressed as a percentage above the price prevailing on the base date. This date was normally 31st August 1939, but as time went on the commissioner consented more and more often to a different date (usually, though not invariably, a later one). An alternative route to the same result might be consent to variation of the basic price, sometimes a purely notional price corresponding to no actual past sales. Thus Prices Regulation Order No. 8 permitted Australian Paper Manufacturers Ltd to base price calculations on the price prevailing on 7th October instead of 31st August 1939; the old and new prices were incorporated in the order, the new being uniformly higher.⁹ Prices Regulation Order No. 82 approved of certain additions to the basic price of coal applicable to Gunnedah Colliery (New South Wales).¹ The purpose of such adjustments was to deal with abnormalities of trading on the standard base date of 31st August or specially unfavourable circumstances applying to a particular trader.

In many cases the varying conditions of trade required detailed fixing of prices for goods as sold by a particular seller or as sold in a particular area. Thus Prices Regulation Order No. 9 fixed the price of twenty-four-ounce tins of jam sold by a Melbourne firm;² Prices Regulation Order No. 11 fixed the retail price of sugar in the metropolitan areas of Hobart and Launceston.³ Orders were sometimes highly specific. For instance Prices Regulation Order No. 22 set a price for a particular shipment of diesel oil.⁴ An example of the complexities which had to be faced was the important Prices Regulation Order No. 15 dealing with imported cornsacks, woolpacks and bran bags.⁵ Landed cost depended on the highly speculative and variable Calcutta market, and had to be accepted as beyond Australian control. Difficulties were intensified, and the political need for an effective control accentuated, by the considerable excess of the wheat harvest over the official forecasts.⁶ The order was lengthy but its basic principle was to fix prices at landed cost plus specified margins (expressed as pence per dozen bags or per woolpack) to importers, agents, storekeepers. Because of the wide variations in landed costs of shipments arriving at or

⁹ *Commonwealth Gazette* 20 Oct 1939.

¹ *Commonwealth Gazette* 24 Jan 1940.

² *Commonwealth Gazette* 20 Oct 1939.

³ *Commonwealth Gazette* 25 Oct 1939.

⁴ *Commonwealth Gazette* 14 Nov 1939.

⁵ *Commonwealth Gazette* 31 Oct 1939.

⁶ See, for example, *Commonwealth Debates*, Vol 162, pp. 1842-45, 30 Nov 1939, including statement by Sir Frederick Stewart of the rapid and confusing revision by Queensland of its need of sacks: 18 Oct 105,000; 26 Oct 180,000; 27 Oct 315,000; 31 Oct 600,000.

about the same time arrangements were made later for the averaging by traders or groups of traders of the costs of a number of shipments.

With some other imported commodities of which landed cost rose rapidly, the only practicable solution was frequent revision of prices. A good example was Oregon timber. On other occasions varying costs were met by the device, explicitly authorised by the regulations, of a maximum price on a sliding scale. Thus Prices Regulation Order No. 55 made detailed provision for varying the maximum prices of bricks in the Sydney area according to fluctuations in the basic wage and the price of coal.⁷ This order was also of interest in its delegation to the New South Wales Industrial Commission of administration of the scheme. It was followed by Prices Regulation Order No. 82 relating to coal in which the list of variable costs considered was longer—changes caused by State legislation, decisions of industrial tribunals, royalties, freight and other transport costs.⁸

On occasions simplicity in the terms of an order, though not of the investigation necessary to justify the approved prices, was secured by recognising price lists put forward by a trade organisation. Prices Regulation Order No. 177, for instance, fixed as maximum prices those in the price list of the Melbourne Timber Merchants' Association.⁹ This had the advantage of a simple method of prescribing terms of sale, but frequently orders set out marginal variations in maximum prices according to quantities sold and to whether payment was in cash or not. For instance, Prices Regulation Order No. 73 provided for maximum Sydney timber prices to carry a discount of 2½ per cent for cash within a month and a surcharge of 15 per cent on orders of less than £2.¹

State enterprises were included on occasions within the control. For instance Prices Regulation Order No. 51 prescribed prices for coal from the Victorian State Coal Mine at Wonthaggi.² In Prices Regulation Order No. 232 the prices fixed by the Industrial Commission of New South Wales for tiles sold in the Sydney district were fixed by the Commissioner as maximum prices;³ in Prices Regulation Order No. 333 the prices of onions in Victoria were fixed, according to the type of seller and other conditions, on a system of relationships to the price paid to growers by the Victorian Onion Marketing Board.⁴ This last price was also fixed by the order, but, in fact, by arrangement with the board, and this key price was similarly varied by later orders. Such orders did not represent Federal dictation to, but cooperation with State authorities.

A long series of orders was concerned with prescribing the date at which "averaging" should commence for various declared commodities. Under the general scheme of Prices Regulation Order No. 2 until such a date was announced, the prevailing price was the maximum, that is if

⁷ *Commonwealth Gazette* 7 Dec 1939.

⁸ *Commonwealth Gazette* 26 Jan 1940.

⁹ *Commonwealth Gazette* 7 Jun 1940.

¹ *Commonwealth Gazette* 12 Jan 1940.

² *Commonwealth Gazette* 5 Dec 1939.

³ *Commonwealth Gazette* 23 Aug 1940.

⁴ *Commonwealth Gazette* 24 Mar 1941.

a commodity were "declared" and no specific price-fixing order followed, its price was pegged until an order extended averaging to it. The commissioner's view was that if a trader held stocks which were large in relation to annual turnover a part of these should be sold at pre-war prices before the higher costs of stock received later could be taken into account. For this reason orders announcing "averaging" dates came at various times for different commodities, being frequent in the second quarter of 1940.

Special arrangements had to be made for fixing local prices of goods of which an important quantity was exported. These fell into two classes, those the subject of agreement to sell to the United Kingdom Government, and others. For the former, the export price was fixed by the agreements, and the task was to set local prices which bore a reasonable relation to the agreement prices and accorded with what was regarded as equitable to producers and local consumers. For the latter the most important exports came rapidly under control of one sort or another, and the objective of the controlling authorities was to secure the best possible prices at least for that part sold to neutral countries. Even for supplies sold to the United Kingdom or other allies, overseas prices had usually risen a great deal, and the price to Australia was correspondingly high. The distinction between sales under agreements with the United Kingdom and other sales thus corresponds roughly to a grouping of exports according to whether they rose little or much in price immediately after the outbreak of war. For the latter group, the price control problem was to do rough justice by the producer while minimising the increase in domestic prices, either to keep costs to local industries down or to be fair to the local consumer. These export agreements and controls over exports are considered in detail in the next chapter.

Legally, during this first phase of price control, any goods and services not "declared" were not subject to control, but in fact a wide range of such prices was determined, often in consultation with the Prices Branch, on substantially the principles applied to declared goods. One major reason for this was that if the prices of any important class of goods rose substantially it was almost certain to be declared. Where, as in some important instances, traders sought informal approval to their prices, it was not altruism which led them to do so. To the general point of the risk of a "declaration", if prices were too much increased, were added solid advantages from informal price fixing. Consumers' complaints could be readily answered; if the goods were subsequently "declared" this need not mean major price changes. Perhaps most important was the gain to traders of a technique, free of the stigma of monopoly, for achieving a high degree of price agreement among themselves, with a reserve sanction in the approval of the commissioner, who would be morally bound to intervene to discipline traders who broke what was not merely an agreement among themselves but one also with the commissioner. Important examples of this informal technique were carpets, sewing cottons, explosives, radios, boots and shoes, potatoes, meat.

A conference with representatives of the boot and shoe industry was convened following the fixing of the prices of hides, skins and leather, one of the earliest groups of prices to be fixed. After a cost investigation, percentage increases in prices were approved (and subsequently reviewed); it was the commissioner's view that this arrangement worked well and was loyally observed.

More difficult were the highly seasonal products, potatoes and meat. With meat, during this first phase, the technique adopted was for wholesalers' and retailers' margins to be varied by agreement, being squeezed when supplies were short, and expanded when supplies were plentiful. Because livestock was normally sold by auction, the price of meat on the hoof was not easily controlled, but the system of compensating fluctuations in margins greatly reduced retail variations. Thus prices of livestock rose by fifty per cent between August 1939 and April 1940, but retail meat prices rose by not quite ten per cent.

Potatoes were an even more complex problem since much of the mainland supply came from Tasmania. The first step was that weekly prices in Sydney (the chief market for Tasmanian potatoes) were fixed in consultation between potato merchants and the Deputy Commissioner for New South Wales; later, formal announcements of the approved weekly price were made by the commissioner. The second step, some months later, was that the Prices Branch organised, as well as shipping conditions would permit, the timing and quantities of shipments from Tasmania. Fluctuations could not be eliminated but were greatly reduced. In the period up to March 1940 when this plan began to operate, price fluctuations had been very wide and frequent; from April to August, the range of variation did not exceed 30s. a ton.

The fruits of all this experience were embodied first in a new general order on principles, No. 100, replacing No. 2 on 20th February 1940, and secondly in a new set of regulations consolidating the amendments made from time to time, and incorporating some additional changes.⁵ Apart from extensive changes to clarify meanings and applications, and to tighten up the instruments of enforcement, the policy changes were surprisingly few.

The chief of the changes of the substance of Prices Regulation Order No. 2 was the modification of the paragraph relating to retail trade. Under Prices Regulation Order No. 2 retailers were not brought under "averaging" but required to sell at cost to them plus their usual margin. Under Prices Regulation Order No. 100, the commissioner might agree to "cost" being taken as average cost.

The changes in the regulations, though more extensive, did not introduce vital changes of principle. Many were to improve administration or enforcement. Thus the commissioner was no longer limited to two advisers in any inquiry, but might seek whatever help he wanted; a portion of a State might be detached for administration by another deputy commissioner (Broken Hill was attached to South Australia in this way). There

⁵ Statutory Rules 1940, No. 176, 22 Aug.

were changes designed to secure more adequate enforcement, mostly by consolidation of earlier amendments. The two policy changes worth mention were the inclusion of services, which, as has been seen, was a very early amendment, and provision for approval of sales for export at prices higher than maximum prices for local consumption, which was an amendment dating from February 1940 and did not represent any real change of policy, but improvement in drafting.

The confidence felt in the system as established in the very earliest stages is striking. And this confidence continued throughout the first phase of price control, until 1942 brought completely changed conditions. No other changes of legal authority, basic principle or procedure occurred in this period. The few amendments to regulations or to Prices Regulation Order No. 100 were primarily of a machinery nature; even the amendment to regulations of October 1940 explicitly excluding, unless a State agreed otherwise, a State-supplied service merely registered the politics of federation. Judged by the test of public acceptance, the control was a great success. In Parliament criticism was virtually non-existent, and in the press negligible.

ENFORCEMENT AND EFFECTIVENESS

Another test of success might be the extent to which the control was effectively enforced. Useful as records of prosecutions and convictions are, they are no more than a rough guide. That, up to July 1942, 304 convictions were secured out of 314 prosecutions may be evidence only of the glaring nature of the offences concerned. The extent to which the Prices Branch took legal action in this early period was limited by a deliberate decision to prosecute only the worst cases and otherwise to rely on moral suasion, "education" and various forms of pressure. In this the branch was greatly influenced by the problem facing all administrators of economic controls during the war: the inappropriateness, to the breaches known to have occurred, of the traditional legal procedures and rules of evidence as they were interpreted by legal officers of the Crown and by courts. A burden of proof concerning the details of certain specific transactions was thrown on the prosecution, which in many cases it was unable to meet. It is not too much to say that evidence of a weight and a logical nature which would undoubtedly have secured a conviction on a serious criminal charge under the ordinary law would fail in a prosecution for an offence against a wartime economic control. Some may rejoice in this stringent and exacting legal approach to such prosecutions, as evidence of the way, even in wartime, the principle of economic liberty of the individual survived, although it is a little difficult to reconcile the standards of evidence and proof required in such cases with the attitudes, not only of investigators and prosecutors but of courts and other tribunals, in applying the body of "security" legislation. In any case, whether one approves or frowns, there should be recognised here a frame of mind and outlook deeply embedded in the country's economic and social institutions and reflecting the dominant economic philosophy of the legal community

who were basically critical of the principles and purposes of wartime economic controls. This outlook, in this particular field as in others, normally meant that prosecutions would be launched only in cases where it appeared that conviction was most probable. Quite apart, therefore, from the policy of the Prices Branch, prosecutions represented bad cases in which the evidence was clear.

A further question to which it is less possible to give a precise answer is the extent of undetected breaches. The popular belief was that these were numerous and widespread, but such a belief would certainly have been sincerely held even if there had not been a single breach. Its existence was therefore not proof of illegal pricing. Within the range of declared goods the system of averaging led to price increases which the consumer could not check, and even specific declarations (especially in the form of percentage increases) were not likely to be widely known outside regular dealers in the commodities. Under such conditions every substantial increase in price was likely to be suspect. Moreover, averaging could produce divergent prices in the same market, and a trader who was charging a higher price merely because of the recent arrival of new stock was apt to be suspect. In the range of undeclared goods (much the larger group in the first phase) increases were not illegal but were apt to be regarded as such if they were substantial. These factors creating suspicion were necessarily stronger the nearer one moved to the retail outlet, and the further from the point at which the commissioner applied direct control. (And of course the opportunities for discreet evasion multiplied.) But it is not possible to doubt that in many cases suspicion was justified.

The imperfect evidence, therefore, will not support more than a qualitative conclusion. Minor breaches were undoubtedly common, and probably the majority of these escaped official attention, but, being minor, they were of relatively little importance for the main purposes of control, although their frequency—itself certainly exaggerated—would make evasion appear serious to the consumer. Of the major and deliberate breaches, a much higher proportion was investigated and detected, and met by whatever weapon from moral suasion to prosecution seemed to the commissioner most effective. Deliberate and serious breaches there certainly were. Beyond this it is not possible to do more than guess; any view, whether favourable to or critical of the effectiveness of the enforcement procedure, which asserts more precise results, derives from prejudice in favour of the efficiency of economic controls, or against the morality of business, or from excessive reliance on particular types of cases.

THE COURSE OF PRICES

A third test of the success of control is the actual course of recorded prices in the period. In itself, of course, such information requires a standard against which the movement of prices can be compared, and the only standard which could furnish proof of a conclusion—what prices would have been in the absence of control—is necessarily unavailable. One needs, therefore, to fall back on the kind of tests which the commis-

sioner himself adopted: comparison with Australian experience in the 1914-18 war, and with other countries from 1939 on. Such comparisons furnish useful indications, but it must be emphasised that of necessity the results are only suggestions and fall far short of proof. Conditions in Australia in the two wars were vastly different, and to compare Australia with England under the blitz of 1940 is a hazardous operation. For what they are worth, however, some comparisons are shown.

All Items of Household Expenditure—Retail Price Index-Numbers
("C" Series)
(Base: Weighted Average of Six Capital Cities, 1923-27 = 1,000)

1939	
March quarter	919
June quarter	917
September quarter	916
December quarter	926
1940	
March quarter	930
June quarter	954
September quarter	959
December quarter	986
1941	
March quarter	995
June quarter	1,000
September quarter	1,009
December quarter	1,029
1942	
March quarter	1,052
June quarter	1,081

Source: *Labour Report* various years.

The conclusions which can be drawn from international comparisons are very tenuous indeed. As between Great Britain and Australia, the contrast appears to be favourable to Australia until it is remembered that Britain, by the end of the period, had known nearly two years of intense direct participation in the fighting, was subject to partial blockade, and had attained a high degree of diversion of resources to war production. The contrast is more readily explicable in terms of the much greater forces tending to raise prices in Britain than of any difference in the operation of two price controls. Contrast with Canada shows too slight a difference to support any firm conclusion. That with the United States of America would not support any more profound observation than that a serious effort to restrict price rises is likely to produce a slower rate of

increase than is the leaving of virtually uncontrolled markets to find their own levels, a proposition which hardly requires demonstration. Rather more weight might be given to the contrast between the experiences within Australia in the two wars, but even here conditions in the two periods were very different, not least in the financial policy pursued. It would be rash to attribute the different courses of the indexes simply to the superior effectiveness of price control (in the narrow sense) in the second war.

Date	Retail Price Index-Numbers (Food, Rent, Clothing, Miscellaneous Household Expenditure)					United States
	Australia	Great Britain	Canada	New Zealand	South Africa	
1914 July	100 (a)	100	100	100	100 (b) (c)	100
1915 Year	114 (a)	125	97	108	103 (b)	102
1916 Year	116 (a)	148	102	115	106 (b)	109
1917 Year	123 (a)	180	130	125	114 (b)	128
1939						
Sep Qtr	100	100	100	100	100	100
Dec Qtr	101	109	103	102	101	99
1940						
Mar Qtr	102	114	103	102	103	99
Jun Qtr	104	116	104	103	104	100
Sep Qtr	105	120	105	105	104	100
Dec Qtr	108	124	107	106	105	100
1941						
Mar Qtr	109	127	107	106	106	100
Jun Qtr	109	129	109	108	109	103
Sep Qtr	110	128	113	108	111	106
Dec Qtr	112	129	115	110	111	110
1942						
Mar Qtr	115	129	115	109	115	112
Jun Qtr	118	128	115	110	117	115

(a) November

(b) Food, fuel, light and rent

(c) Average for year 1914

Source: *Labour Report* No. 31 (1940); No. 32 (1941 and 1942)

The more reasonable conclusion is that despite the stronger forces making for increased prices in 1939, the total effect of all measures of government policy, including, but not confined to, direct price control, was to contain the price rise within narrower bounds than in 1914-16.

It is possible to say, not as a direct inference from this or that piece of evidence, but as a judgment deriving from study of the whole record, that price control in the first two years attained its objectives in a high degree. That this was so was partly because the obstacles were much

less than in, say, 1943; partly because other instruments than price control were effective in restraining price movements; partly because the objectives were not perfectionist. Such comments, it is perhaps necessary to stress, must not be read as denigration of the Prices Branch but rather, if such judgments were relevant in the present study, the reverse. It was fortunate that before the war became for Australian civilians a grim near-at-hand business, the combination of a fairly easily manageable price problem, an approach which looked to other controls for basic support, and a setting of attainable rather than ideal standards of control, permitted the establishment of a smoothly running price control, accepted by business and the consumer. In addition it permitted the establishment, not merely as an initial plan but as an operating principle, of the doctrine that among the major forces controlling prices must be: general finance, monetary policy, labour and wage controls, external trade policy and similar instruments, with price control in the narrow sense operating within the framework set by these. It is legitimate to attribute this situation primarily to the choice of a commissioner with economic training who was able, in close collaboration with a small group of men of similar training, in key positions, to influence the principles behind the operation of these related controls.

OTHER CONTROLS OF PRICES

Despite the comprehensive range of Prices Branch activities there were certain classes of prices outside its control which were dealt with by others. In rents, this separation was of little significance for general price control except for the indirect link that rents affected the basic wage. Similarly the control of interest rates through the Treasury and the Commonwealth Bank had in practice little importance as an element in costs, being more concerned with general monetary and loan-raising policy, for which reason it is discussed elsewhere. But there were other prices not under the control of the Prices Branch, the level of which was of great importance to its policy and in which the principles followed by the authorities concerned with them raised serious difficulties of general price control. In exports for example whether they were subjects of contracts with Britain or not, there was an understandable objective of securing the best price possible. Without further action however, such an objective implied consequences for the prices of these goods in the domestic market and the availability of supplies there, including supplies to the Services. Accordingly, for the leading exports it became necessary for the Prices Branch, in concert especially with the Department of Commerce, to devise formulae for linking domestic price with export market policy. The normal pattern was to hold the domestic price below the export level and ensure adequate local supplies by the introduction of a control scheme varying in its details according to the commodity concerned.

With supplies of munitions and other goods to the Services, the view of the Departments of Supply and Development, Munitions, and Aircraft Production was, naturally, that supplies must be obtained, and therefore prices arranged in various contracts were intended to be adequate incentives

to suppliers to undertake work, often new to them, and with which they were reluctant to take risks. By contrast, the central conception of price control was the maintenance of fair prices. For service supplies the problem of adequate incentive, with insurance against uncertainty, was achieved by forms of contract which, in principle, were "cost-plus" with various adaptations. In the end conflict between the two principles of incentive prices and fair prices was inevitable, but it developed all the earlier because the cost-plus principle weakened the resistance of manufacturers to cost increases, especially demands for higher wages, which spread comparatively quickly to other types of production and therefore tended to cause general increase in costs. However, in the early stages of the war the basis of pricing for government supplies created no great difficulty, except to a limited extent in this acceleration of cost increases, primarily because the level of total output and employment was still well below capacity.

Broadly the level of wages was left to determination by pre-war institutions and principles, that is to say the system of conciliation and arbitration. In special types of cases which have been noted elsewhere, there was executive intervention which had the effect of raising wages, especially in munitions industries, to secure the transfer of men to them. But it was not practicable to confine wage increases to these special cases. In particular, war loadings were commonly agreed to by employers, as were normal increases, at least where employers were working on cost-plus contracts. The frequency of "consent-awards" made in the latter part of 1940, however, raised a serious issue in relation to price control. The Prices Commissioner, operating a control system based on admitting changes in costs as a *prima facie* justification for a change in price, was forced to distinguish increases in labour costs resulting from decisions of industrial tribunals and those which were the result of agreements between employers and employees. Initially the latter were excluded—for the obvious purpose of restraining employers from the easy solution to labour difficulties at the expense of consumers.

This clear-cut distinction, however, did not correspond to the realities of arbitration and conciliation, for it put a premium on resistance, real or pretended, by employers to claims. This was unwelcome to the Arbitration Court, which was concerned that the system of conciliation which it had built up should not be undermined. Its attitude was stated publicly by Judge O'Mara⁶ in April 1941:

In this case the parties have reached complete agreement as to the settlement of the dispute and the Court is asked to make an award to give effect to that settlement. Although there is a complete agreement the attorney for certain of the respondent employers stated that he did not want the award to be made a consent award. I inferred from his remarks that it was felt by some of his clients at least that some difficulty was anticipated with the Commonwealth Prices Commissioner in having the agreed increases taken into account in the event of an application being made for increased prices. Mr Maloney, however, stated that he had seen Mr Holt, the Minister for Labour, on that subject, and had received an assurance that the

⁶ Mr. Justice T. O'Mara. (1st AIF: 2 Sig Sqn 1916-18.) Lectr Indust Law, Univ of Sydney 1937-38; Judge of C'wealth Arbitrn Court 1939-46. B. 1898. Died 12 Oct 1946.

position was satisfactory so far as the Commonwealth Prices Commissioner was concerned. That may be so, but in a number of instances before me it has been suggested but never definitely stated that the Commonwealth Prices Commissioner takes a certain attitude towards awards of this Court which are made by agreement of the parties.

I do not know yet precisely what the attitude is, but I have been left to infer that it is something in the way of sitting in judgment on the Court on some aspect of public interest.

The Court is bound to consider the public interest in making an award by agreement or otherwise, and it is charged with the duty of endeavouring to bring the parties to a dispute into agreement. Its efforts in this respect are likely to be impeded if the employers are not aware of the principles upon which agreed awards will be dealt with by the Commonwealth Prices Commissioner.

So that I will no longer be left in the position of having hints made as to a possible stand being taken by the Commissioner I propose to have these remarks that I am now making brought under his notice with an intimation that it will assist the Court if he can see his way to make a statement of the principles applicable in the cases of this Court's awards.⁷

It took some time, however, for this conflict to be resolved. For the Prices Branch it was clearly necessary to resist the doctrine that all increases in cost should become the basis for increases in price; and bargains by employers and unions for increases in wages would have speedily made a farce of price control if such bargains were governed by the certainty that employers could get a new price determination to cover the increase.

On the other hand, for the court, a price control policy which refused to recognise wage increases other than by way of contested awards would have destroyed its conciliation activity, and have placed a premium upon direct action tactics in resistance to awards of the court. For some time token resistance by employers' associations to applications for new awards was adopted as the way out, so that what were in fact consent awards were regarded as if they had been contested, until the court made it plain that it would no longer be party to such subterfuge. The policy was set forth by Judges O'Mara and Kelly.⁸ The former stated:

In this case the employers have maintained, and it has not been seriously contested, that the increases were conceded under duress and only because it had been impressed upon them that a stoppage of work interfering with the production of glycerine would be a serious blow to the war effort and the manufacture of munitions. Having yielded to the forces of direct action, they are now very concerned lest the Court should make an order in a form which would not permit them to recover the costs of the increases through the Prices Commissioner . . . the Court, in the interests of the employees themselves, must be careful to avoid as far as it can the placing of any avoidable pressure on the structure of price control. It is also under a duty to see that the Prices Commissioner is not misled as to the circumstances in which an award is made. . . . The employers concerned have all agreed to be bound by an award, and the Court will not prevent them from incurring the obligations thereby involved. The question of whether they will secure the privilege of an increased price is one for the Prices Commissioner, and so that he will be advised of the position a copy of this judgment and the Court's order

⁷ *Commonwealth Arbitration Reports*, Vol 44, p. 771.

⁸ Hon Sir William Kelly, KBE. Pres S.A. Indust Ct and Bd of Industry 1930-41; Judge C'wealth Arbitn Ct 1941-49, Chief Judge since 1949. B. Calcutta, India, 2 Dec 1898.

will be forwarded to him. Also for the purpose of the record, it will be stated on the face of the award that it was made to give effect to an agreement which was made under duress and for the purpose of securing a resumption of the production of a commodity urgently needed by the Commonwealth in the production of munitions.⁹

Judge Kelly in the related case said:

... it is not part of the functions of this Court to give to what is equivalent to a "consent" award the appearance of a determination by way of adjudication. To do this would mislead or in the alternative might embarrass the Prices Commissioner. . . . The position is therefore that the employers have not challenged the claim . . . their attitude in truth supports the application.¹

It immediately became clear that employers would, in future, genuinely and seriously resist claims, and that stoppages and strikes would be likely to be frequent.

Moreover the Labour Government, which assumed office on 7th October 1941, tended to emphasise the maintenance of the principles of conciliation even at the expense of the holding down of costs. Accordingly the Prices Commissioner elaborated his principles.² He now distinguished the following cases:

- (1) awards, not being consent awards;
- (2) agreements negotiated entirely outside the arbitration and conciliation system;
- (3) agreements reached through the formal conciliation machinery;
- (4) consent awards, not subject to reservation; and
- (5) consent awards, where the Court added a reservation that the award would not have been made unless the parties had agreed.

The second, third and fourth were to be regarded as equivalent to awards, and, in general, to justify price increases; in the fifth case the employers were required to show cause why the increased labour costs should be the grounds for a price increase.

This statement of principle enabled the court to continue to use conciliation wherever possible in place of arbitration, and undoubtedly minimised interruptions to production. But it clearly placed a premium on employers disguising their consent to improved wages and conditions, to an extent in practice which cannot be estimated.

RENTS

Rent control from the beginning stood apart from other forms of price control. At the Premiers' conference in September 1939 at which the introduction of general control was discussed, rents were considered and it became clear that any system would have to leave effective administration in the hands of the States and in particular provide for some divergence in policy. Landlord and tenant legislation was in general a matter for the States, but it appeared that their approaches to the question of rent

⁹ *Commonwealth Arbitration Reports*, Vol 45, pp. 264-5.

¹ *Commonwealth Arbitration Reports*, Vol 45, p. 365.

² See Memorandum in *Commonwealth Debates*, Vol 169, pp. 75-6, 5 Nov 1941.

control were widely different. The Queensland Government had had a system of rent control since 1920, and this had been tightened up in 1938; they were keen to see Commonwealth authority used for wartime purposes. The South Australian Government, however, wanted to be left alone to handle their own problems, claiming that the system then operating in Queensland would lead to "an enormous increase in rents" in their State. The Tasmanian Premier said frankly "if, however, legislation to control rents were introduced into Tasmania it would probably be thrown out by the Legislative Council almost immediately".³ The solution adopted in subsequent negotiations with the States was the introduction of Fair Rents Regulations by the Commonwealth, the main purpose of which was to put beyond doubt both constitutionally and politically, the power of State Governments to operate rent control by executive action without the necessity of State legislation, if they desired to adopt that course.

The Commonwealth regulations empowered a State if it so chose to peg rents of houses and shops (which did not include hotels or other licensed premises, holiday premises or farms) at the rates prevailing on 31st August 1939.⁴ This pegging would then operate until the end of that year, by which time it was assumed that those States which elected to adopt the regulations would have set up the machinery which it was the main purpose of the legislation to authorise.

The machinery was that of Fair Rents Boards to which either landlord or tenant might make application for determination of fair rent, in deciding which, however, the boards were given no principles to follow. Determinations, when made, would be for not less than three months or more than twelve months, and there were restrictions on the right of a landlord to evict a tenant which, however, were expressed only to apply to the period during which an application by a tenant was being considered, or during the term of a decision by the board. The termination of the tenancy was permitted, at the end of such a period, if rent had not been paid; or there had not been reasonable care of the premises; or if they were used for an immoral purpose; or if the tenant was a nuisance to his neighbours; or by sub-letting made a profit. More important, the landlord who desired the premises for his own use or had made a contract of sale with vacant possession might give notice to quit.

The practical effect of these clauses was that, framed with the best intentions, they gave landlords a very considerable advantage as compared with tenants. After the end of 1939 rents ceased to be pegged under the regulations and if a tenant had not obtained a fair rents decision, the landlord might legitimately demand increased rent or give notice to quit without being limited by the regulations (except so far as the tenant was prepared to contest the rise in a Fair Rents Court). In any case the grounds for termination of tenancy, even in one subject to a decision by a board, were sufficiently wide to cover a high proportion of actual cases. This was par-

³ Proceedings of Conference of Commonwealth and State Ministers, Canberra 9 Sep 1939, on matters arising out of the state of war (printed), pp. 8-9.

⁴ Statutory Rules 1939, No. 104, 27 Sep.

ticularly so as, of necessity, the courts took the view that a tenant under notice to quit could not prolong his tenancy by applying for a determination of fair rent, which opened the way for landlords, expecting a tenant's application, to forestall it by terminating the tenancy. In short, after the end of 1939 the only tenants who were protected by the regulations were those who had secured decisions of a board, and the mere problem of numbers ensured that these would be a minority of all tenants, while, once the blanket pegging had expired, many tenants would prefer to pay higher rent than risk eviction and bad relations with their landlords.

Three States only elected to adopt Commonwealth regulations: Queensland, Victoria and Tasmania. Victoria suspended its own 1938 *Fair Rents Act* and adopted the Federal regulations as they stood, but Tasmania, despite the earlier forecast of its Premier, avoided much subsequent difficulty which Victoria experienced by passing an Act of its own which continued the rent-pegging provisions of the Commonwealth regulations.⁵ The regulations were also applied to the Australian Capital Territory and the Northern Territory, but the other three States chose to introduce legislation of their own.

The New South Wales Act pegged rents at the level of 31st August 1939 for houses let at up to £3 10s. per week and shops up to £6 per week, excluding holiday premises and hotels. The landlord or tenant might apply to a Court of Petty Sessions for the fixing of a fair rent, in arriving at which the courts were instructed to provide a net return (that is after allowance for the estimated cost of maintenance, repairs, local rates, insurance and depreciation) of 1½ per cent above the average rate of interest on first mortgages on urban securities as calculated by the Government Statistician, a rate which then ranged from 4½ to 6 per cent.

South Australia legislated to peg the rents of dwelling houses at the rates of 1st September 1939 with restrictions on eviction similar to those in the Commonwealth regulations. An increase in rent was authorised only when there was subsequent expenditure on improvements, or structural alterations which were held to justify increase of rent by the amount of 8 per cent per annum on the landlord's expenditure.

Western Australia went further and pegged rent of all land and premises at the level prevailing on 31st August unless increased on the application of either landlord or tenant by a legal court, with an appeal to the State Supreme Court if the value of the premises exceeded £2,000. Restrictions on eviction were substantially the same as those in the Federal regulations.

Unfortunately statistics, however accurately they may reflect the situation they purport to measure, give no indication of the developments which were reflected in the growing hostility to rent control as it existed. Where, as in Victoria with its expanding munitions production, there were considerable movements of population into areas in which housing became difficult to secure, increases in rents outside rent control or in defiance of

⁵ *Increase of Rent (War Restrictions) Act* 21 Dec 1939. 3 & 4 Geo VI, No. 53.



THE MODERN GULLIVER'S PROBLEM

Wells in Herald (Melbourne), 5 Mar 1941.

it became common, and this led, early in 1941, to the first important change in the regulations. Housing of war workers, especially in Victoria, and at other places such as Lithgow in New South Wales, was a more fundamental problem than control of rents, and was to find its own incomplete solution through government construction of houses, but during 1940 it provided a focus for discontent with the inadequacies of rent control, and a source of pressure which the Government would have found difficult to resist even if it had so wished.

HOUSING (4 and 5 rooms)
(Base Weighted Average of Six Capital Cities, 1923-1927 = 1000)

Weighted average:	N.S.W.	Vic	Qld	S.A.	W.A.	Tas	6 Capital Cities	30 Towns
1938								
Jun Qtr	980	915	824	840	910	873	938	922
Sep Qtr	991	921	831	847	912	876	946	929
Dec Qtr	1001	925	835	852	915	880	953	939
1939								
Mar Qtr	1007	932	839	857	916	882	959	941
Jun Qtr	1014	936	839	861	919	885	963	946
Sep Qtr	1019	940	841	863	920	889	967	950
Dec Qtr	1021	942	841	865	920	892	969	951
1940								
Mar Qtr	1022	946	841	865	921	893	971	953
Jun Qtr	1022	949	843	866	920	893	972	954
Sep Qtr	1023	951	844	866	919	893	973	955
Dec Qtr	1023	954	844	866	920	894	974	956
1941								
Mar Qtr	1024	957	845	866	920	894	976	958
Jun Qtr	1024	956	846	867	920	894	976	958
Sep Qtr	1024	956	846	866	921	895	976	958
Dec Qtr	1025	956	847	867	921	895	976	958
1942								
Mar Qtr	1026	957	848	866	915	895	977	958
Jun Qtr	1024	956	849	866	912	895	976	957
Sep Qtr	1023	956	849	866	907	894	976	956
Dec Qtr	1023	956	849	866	904	894	976	956

Source: Retail Price Index-Numbers ("C" Series)
Labour Reports (Bureau of Census & Statistics)

The issue came to a head in the public dispute between the Premier of Victoria and the Minister for Trade and Customs (that is the minister generally responsible for price control) in which Victoria was accused of failing to apply the regulations, and the Commonwealth of failing to provide adequate powers for the efficient control of rents. A Premier's

conference was the occasion taken to iron out these differences,⁶ which arose from the fact that in those States which had adopted the regulations, the landlord, after the end of 1939, was not compelled to seek approval for a higher rent if there had not been any determination by a board, or if such a determination had expired. The solution found was a completely new set of regulations, which consolidated previous amendments and made a number of minor changes.⁷ One of these amendments was the addition, in July 1940, at the request of the States, of factories to the premises for which fair rents could be fixed.

The central point of the new regulations, however, was that all rents for prescribed premises, which included "any dwelling house, shop or factory", were pegged at the level actually in force on 31st December 1940. Any variation required an application either by landlord or a tenant to a Fair Rents Board. This meant that a landlord would in future have to seek the authority of the board in order to obtain a higher rent. In other respects the regulations repeated the main provisions of the original ones, including in particular those relating to evictions, and of course the new regulations like the old were applicable to a State only if the Government of that State chose to adopt them, that is, in practice the same three States: Queensland, Victoria and Tasmania.

The situation as it then stood was that these three States were administering the Federal regulations, which pegged rates at the level of December 1940 while South Australia and Western Australia had their own more drastic regulations pegging rates as at the outbreak of war. The conspicuous exception was New South Wales where restrictions on rent increases only became effective if application was made to a Fair Rents Court which was directed to give a net return of, in effect, seven per cent, the practical result of which was that increases in rent were very likely to be awarded.

The change of Federal Government provided the occasion for the irrepressible Minister for Labour and National Service, Mr Ward,⁸ to raise the issue, which, apart from its obvious attractions to him personally, concerned his own State. The minister made no secret of his desire for the use of the strong Commonwealth hand to override the States, but a less dictatorial though none the less forceful solution was found (the more easily because the previous May had brought Labour to power in New South Wales) by the introduction of a completely new set of Landlord and Tenant Regulations in November 1941.⁹

These fell into two clearly divided parts: those relating to evictions, and those relating to the control of rents. The eviction provisions were made to apply throughout Australia, and thus, in the case of any conflict, took priority over the law of a State. The formal grounds upon which a landlord might obtain possession of premises were a repetition of those in the original regulations, but they were tightened up by a number of

⁶ Not in the formal proceedings of the conference.

⁷ Statutory Rules 1941, No. 62, 25 Mar.

⁸ Hon E. J. Ward. MHR 1931 and since 1932; Min for Labour and National Service 1941-43, Transport and External Territories 1943-49. B. Sydney 1899.

⁹ Statutory Rules 1941, No. 275, 28 Nov.

important limitations. The landlord was required to give notice varying with the period of the tenancy which might allow a tenant up to three months to quit. If a landlord sought possession on any of the permissible grounds the Fair Rents Court was required to take account of hardship imposed on interested parties and so gave discretion to reject or attach conditions to the granting of possession as it thought desirable.

The provisions concerning the pegging and variation of rents were made applicable to any State or territory at the discretion of the Minister for Trade and Customs, if it was deemed that local legislation was inadequate. In the first instance application was restricted to the State of New South Wales and there limited to houses of a pre-war rental value of up to £4 4s. a week.¹

As from 28th November 1941 rents of all such houses were pegged at the levels prevailing at 31st August 1939, or in the case of new houses, at rents to be fixed by the Fair Rents Board. The procedure for determination of fair rent could be set in motion by either landlord or tenant and the boards were given some direction as to the factors which they should take into account in deciding a rent which would be fair to an owner.²

The operation of the regulations so far as they concerned rents was successively extended to the Australian Capital Territory (December 1941), Tasmania (February 1942), Victoria (March 1942), Queensland (April 1942), but not until January 1943 to Northern Territory.³

Western Australia and South Australia were left alone to operate their own legislation, which had embodied from the beginning the key principle to which, by Commonwealth action, the other four States had now been brought, namely, the pegging of rents at a definite date and the prohibition of all increases except with the approval of a Fair Rents Board. In other words increases in rent could not (legally) be made unless they were justified before a body which was specifically charged with holding the balance of equity. It was still true that evasion of the regulations occurred and that, as housing became increasingly difficult to find, tenants submitted to demands for higher rent, the payment of "key money", and the like exactions, rather than undertake proceedings with the risk that a board might award a rent as high or higher. But in the majority of cases at least the tenant was protected in the sense that there was no compulsion upon him to pay an illegal rent, and he could always wait for the landlord to make his case before a board just as, if he thought the rent excessive, he could himself apply for a determination.

¹ From Mar 1942 the regulations applied to shops with a weekly rent of up to £20 and from Mar 1943 to all dwellings, shops and factories with rent up to £10 per week.

² They were to consider: (a) the capital value of the premises; (b) the annual rates and taxes and insurance premiums paid in respect of the premises; (c) the estimated annual cost of repairs, maintenance and renewals of the premises and fixtures thereon; (d) the estimated amount of annual depreciation in the value of the premises and the estimated time per annum during which the premises may be vacant; (e) the rents of comparable premises in the locality of the premises the subject of the application; (f) the rate of interest charged upon overdrafts by the Commonwealth Bank of Australia; and (g) any services provided by the lessor or lessee in connection with the lease (p. 6 of Regulations).

³ In Victoria and Queensland rents were pegged at levels of 31 Dec 1940, that is the date previously operative, and in the Territories and Tasmania at 31 Aug 1939, the same date as for New South Wales.

CHAPTER 3

EXPORT INDUSTRIES AT WAR

IN the early months of war, government concern with primary industry was dominated by consideration of exports, whether in terms of selling to the best advantage or offsetting the effect of loss of markets. Not until 1942 did the emphasis shift to the organisation of primary production as part of the domestic war economy. In short, early policy was basically the continuation of traditional Australian policy, in the special circumstances of war.

The industries concerned fall into three broad groups. First were those which were the subject of bulk purchases, mainly by the United Kingdom, in which the chief problems as seen by the Government were the making of the best possible terms and the creation of the organisation necessary for the execution of contracts. Second were those products whose markets had been sharply curtailed by the conditions of war, where the central problem was seen as the effort to retain as large an export market as possible and to sustain the industry in its difficulties. Third was the small group of commodities which there was no difficulty in selling abroad at advanced prices, but an important part of the output of which was required to supply local war production; this entailed a conflict of interest between the desire to receive the highest possible export income and the need to ensure supplies of materials to local war industry at more moderate prices. Intervention by the Government in this last group was therefore directed towards establishing the machinery for a two-price system.

In the working out of policy in these several fields there were two constant themes. First was the political importance of primary industries. At the level of formal political activity this was based upon the special position of the Country Party which in turn was built upon an electoral system which gave to country areas a number of seats in Parliament which, on a population basis, was disproportionately large. Extending back into the end of the nineteenth century there had been a long story of government subsidies to primary production; rural debt relief; organised marketing; and stabilisation schemes which had, in effect, been subsidy schemes. It would be superficial to explain all this, and the atmosphere in which wartime policy was formulated, in terms simply of electoral organisation. The roots of this attitude go very deep. At bottom was the fact that most Australians at heart are physiocrats, believing that real wealth comes from the land. It was entangled with a good deal of sentimentalism about Australian development which, until very recently, had never been conceived in industrial terms and had normally meant expansion, especially geographical expansion, of primary industry. There were reflections of nineteenth century conflicts over access to land, the slogan of breaking up the big estates, the emotional attachment to taxation of the land on a progressive basis, and more recent experience with soldier settlement which was often confusedly identified with a major part of primary production.

Reflecting all this was the second wartime theme, the acceptance of the idea of the vital importance of maintaining exports as such almost regardless of their place in a war economy. On the one hand this meant that the Government was always ready to sponsor stiff bargaining with the United Kingdom over prices and other terms of contracts; and the Department of Commerce, which, in the early part of the war, continued to conceive its function as primarily that of promoting exports, was always the responsive instrument of those who sought better export terms. Similarly the Government took almost for granted that wartime organisations to handle export arrangements should be predominantly composed of representatives of producers and accepted without question the obligation to support export industries which found themselves in difficulties. On the other hand, running through government policy towards primary industry was the constant fear of an emergency, especially of a shipping crisis, which would impose a major loss of export markets. That fear became acute after the fall of France, and led to plans for government provision of storage, pressure on Britain to modify shipping arrangements, examination of methods of sustaining producers' incomes, consideration of the general adoption of two-price schemes, and the like. The position became even more serious early in 1941 because of the increasingly grave British shipping problem and the clear indications from Britain that this must have its impact on purchases from Australia.

After the collapse of France there was consideration of action which might be forced upon Australia if there should be a major interruption of communications with Britain. The topic which received closest and most continuing attention was that of the position of export industries. The Department of Commerce naturally took the initiative in pressing for attention to this problem, its main approach to the solution being to urge the establishment, with government financial aid, of greatly extended storage capacity, coupled with an intensive publicity campaign to increase local consumption of commodities of which there would then be large surpluses. In the conditions of mid-1940 it appeared that this might well prove an adequate short-run solution, but a longer view raised questions of the financing of export industries if the loss of export markets were prolonged, and of the extent to which production of these commodities should be maintained. Discussion of this difficult issue continued all through the latter part of 1940, and when the Prime Minister was in London early in 1941 he took the matter up with the British Government.

No acute emergency had thus far occurred. The British shipping position was steadily worsening and the Australian Prime Minister had to accept the fact that it would be less easy for Australia to find either British markets or ships for other than the most essential commodities. He was, however, able to secure an agreement on broad principles in the following terms:

The two Governments have agreed that the following should be applied as a basis for such cooperation:

- (1) The United Kingdom Government to purchase Australian produce that can be shipped and to pay for such produce at prices and upon such terms and conditions as are from time to time agreed by the Ministry of Food.
- (2) The Australian industries to make every effort to adapt their production to shipping possibilities, e.g. by de-boning, canning or pressing meat.
- (3) Alternative markets to be developed wherever possible.
- (4) Reserve stocks of storable foodstuffs to be created to certain quantities to be agreed.
- (5) The quantities to be stored to be determined in relation (a) to probable demands during or after the war, (b) to the importance of industries to Australia.
- (6) The financial burden of acquiring and holding these reserve stocks pending their disposal to be shared equally between the two Governments.
- (7) The payment to be made for produce acquired for reserve stocks to be agreed between the two Governments.

While it will be necessary to take due account of such items as costs of storage, depreciation, etc., it is intended that payment shall be fixed on such a basis as will, as far as practicable, have the object of keeping industries going while avoiding creation of unmanageable surpluses.

- (8) The detailed application of the above principles be referred to experts from the two countries.¹

This was some reassurance to the anxious export interests in Australia where attention turned to the drafting of plans for particular industries, to deal with surpluses which would accumulate if shipping became even more difficult, and to greater attention to the repeated British representations for adaptation of Australian products to fit available shipping. Thus the Dairy Produce Committee took up the switch from butter to cheese, dried milk and condensed milk, and the Meat Board the boning of carcasses for oversea shipment, increased canning of meat and restricted slaughtering of stock. It was also agreed that where emergency control measures became imperative because of the shortage of shipping, control of the prices of these commodities should pass to the Department of Commerce, the main idea being that local consumption could be stimulated by rapid adjustment of prices in the light of stocks at the moment. This last provision operated in the case of meat only, and then for a brief period; by 1942 the whole situation had been changed with the need for Australia to become the chief food producer for forces in the South-west Pacific.

BULK SALES

Commodities which were the subject of contracts for bulk sales to the United Kingdom comprised wool and sheepskins, butter, cheese, eggs, meat, canned and dried fruits and sugar.² In general the arrangements for these contracts and for their execution swung into operation smoothly because the pre-war negotiations, except perhaps in the special case of canned fruits, had reduced the range of discussion to leave only one main issue—that of price.

¹ Prime Minister to Acting Prime Minister 22 Apr 1941.

² Contemporary documents almost universally speak of bulk "purchases" which is indicative of the whole attitude which implicitly recognised that the initiative and the dominant position lay with the Ministry of Food and the British Government.



"If you took more of our surplus primary produce in your ration you'd be as sound as a bell."

Frith in Bulletin (Sydney) 17 Sep 1941.

The wool contract is in a special class because of the key importance of Australian supply in the world market and the vital nature of the commodity in war. It was for this reason that the British Government was keen to make a contract to cover the entire output for the duration of the war. In the case of other commodities for which contracts were concluded Australian supply was only a small part of the total world supply and it was necessary in any case to consider competition from other sources.

The British Ministry of Food had to consider, too, issues arising out of the shipping position and most important of these was the length of haul which put Australia at a considerable disadvantage compared with North America or, until early 1940, allies and neutrals in Europe. There were also questions of the availability of refrigerated shipping space, important for eggs, meat and butter. Another issue was priority based upon food value. This gave considerable importance to dried fruits but led the Ministry of Food to be reluctant to carry through the pre-war understandings concerning canned fruits. The importance attached to canned fruits in the earlier discussions was apparently an echo of 1914-18, but an appreciation of more recent knowledge of their food value disposed the British ministry to curtail plans for the import of canned fruits, although in the end the Australian industry was able to make its sales because canned fruits re-established themselves as a convenient way of making army diet more attractive.

Concern with the shortage of hard currency, primarily dollars, disposed the ministry to look more favourably upon supply from Australia who was prepared to accept payment in sterling. On the other hand considerations of economic warfare often dictated that supplies should be sought from European neutrals or other sources further afield even at the expense of currency and shipping difficulties and to the detriment of Australian ability to make sales. The ministry had also to consider the position of the Australian Government in the matter of exports both in respect of the importance in the economy and in Australian politics of industries producing for export, and of the maintenance of Australian overseas funds.

All these considerations pointed, for commodities other than wool, to the making of one-year contracts, which in general took the form of agreement for certain definite quantities to be paid for at fixed prices, with additional quantities to be taken at the same prices if shipping were available. These contracts were in fact renewed from time to time but there were fairly frequent revisions initiated from the British side, both as to quantity and as to the particular form in which the commodity should be supplied.

Within Australia it was necessary to establish some form of organisation to handle the execution of these contracts. There does not seem to have been any serious questioning of the principle of using boards or committees composed predominantly of representatives of producers and, in appropriate cases, consuming industries in Australia, under an independent

government chairman. At the very beginning the Prime Minister reassured primary producers:

In connection with all such proposed sales, the Government has conferred with bodies of a representative kind where they exist. Where such bodies do not already exist the Government has created them, for example the Central Wool Committee, and the wheat committee. No steps will be taken without reference to those bodies.³

In many cases it was possible, as had been foreshadowed in the War Book, to use pre-war marketing organisations, sometimes with slight modifications. This policy was to be the source of some difficulty, because the membership, functions and outlook of these marketing organisations had been adapted to peacetime purposes and conditions, and did not necessarily work out well in the circumstances of war. For commodities the subject of bulk purchases this factor did not matter very seriously because there was not, after all, so much difference in purpose between the pre-war and wartime objectives of these organisations, but as will be seen, the difficulties were serious where export industries faced lost markets. A lesser sort of difficulty common to all these boards and committees was their inclination to regard themselves as independent bodies, and it became necessary to direct them to refrain from public announcements about the policy they were urging the Government to adopt and to require them regularly to inform the Government of their own proceedings.

Finance of these sales was handled through the Commonwealth Bank to a well defined simple pattern. Except with dried fruits, the principle was that commodities were carried at purchaser's risk and consequentially the chief interest of Australian producers was in the date on which they would receive payment. The practice adopted was that the Commonwealth Bank advanced, in normal trade fashion, against shipping documents and the British Government (usually the Ministry of Food) paid the major part of the purchase price on advice of shipment. There were divergences from this general rule in particular contracts, but it applied in the main.

That contracts were made for one-year periods only (excepting wool) meant that constant pressure was exerted by the various industries and faithfully reflected by the Department of Commerce, and in part by the Treasury, for the maintenance of sales and for improvements in price. There was concern about the making of such contracts in terms of sterling. The Financial and Economic Committee in particular more than once raised this issue, first because of early expectations of a depreciation in sterling in relation to neutral currencies greater than that of the Australian pound, and later because of the steep rise in prices of imports. The committee proposed that a clause be included in contracts to make prices vary with movements in the Australian import price level, but without success. As things turned out increased prices were obtained in most later contracts, though usually on the basis of argument relating to the specific commodity. Early satisfaction with the price in the wool contract was followed by doubts about the wisdom of committing Australia for the

³ *Commonwealth Debates*, Vol 161, p. 522, 14 Sep 1939.

whole duration of the war and questioning of the basis on which annual review of the price, which was written into the contract, referred mainly to the Australian cost of production of wool. The Financial and Economic Committee thought of tying the price of wool to movements of the British Board of Trade index of wholesale prices of industrial materials and manufactures. The point at issue was again the desire to link earnings of sterling with commitments for imports from Britain, but the Central Wool Committee and the Prime Minister would have none of the proposal.

Wool.

The arrangements for the sale of wool worked throughout with outstanding success. The explanation for this is the central fact that, as agreed in principle before the outbreak of war, the contract with the British Government covered the entire Australian output and the whole of the period of the war, the only qualification being provision for the supply of wool to Australian manufacturers, and even this was directed through the same distributing organisation. The comprehensiveness of the scheme meant in particular that for its operation it was possible to use all sections of the trade—dealers, brokers, buyers, shippers—on work which was substantially the same in most respects as their normal functions. And, in fact, it was essential that they should be used. There was therefore no problem, as there was with other products, of displacement from the marketing organisation of unwanted firms and persons. The amount and the security of the price were also important factors in the success of the scheme. The basic price agreed upon was comfortably above that of the 'thirties and the grower had the guarantee that, subject to the right of either government annually to ask for review of price, the whole of his production would be paid for at the appropriate equivalent of the basic price throughout the whole war.

For the British Government the purpose of this purchase contract, which was paralleled by similar contracts with South Africa and New Zealand, was to secure monopolistic control of the major part of the world's supply of a key war material. In part the intention was to prevent any indirect supply to enemy countries; in part to provide an instrument for bargaining with neutral countries, as well as, of course, ensuring supplies for Allied war needs. The vital importance of wool in all these respects explains the ability of the Australian Government to secure a very favourable arrangement as to price.

The tentative arrangements envisaged before the war were largely influenced by the experience of the other war in which belatedly and by trial and error the machinery for implementing a similar contract was worked out. A complete set of records of the earlier scheme and one of its key staff, Mr Yeo,⁴ were available to the new organisation. This took the form of the establishment, within two days of the declaration of war, of

⁴ N. W. Yeo. Chief Accountant Central Wool Ctee 1916-20; Chief Accountant B.A.W.R.A. 1920-23; Executive Member Central Wool Ctee 1939-45; Executive Member Ausn. Wool Realization Commn from Nov 1945, Actg Chairman from Jan 1949. B. Ballarat, Vic, 21 Jun 1886. Died 1 Jun 1950.

a Central Wool Committee representing growers, brokers, buyers and manufacturers with an independent chairman, and with Yeo as executive member.

On the one hand the committee had to handle the Australian end of negotiations with the British Government for a definite contract along the broad lines already agreed upon, and on the other to establish the machinery and procedure for handling the wool. In the negotiations for the contract the question of price proved particularly difficult. The British Government offered to pay the average price of the 1938-39 clip, which was unacceptable to Australia, a principal argument being that the price was exceptionally low. The wool industry, in fact, had been experiencing poor returns ever since the depression years so that immediately before the outbreak of war growers' organisations, which had in general held steadfastly to the avoidance of marketing schemes, were flirting with just such a plan. Bargaining was, however, on both sides, and the respective Prime Ministers had to be brought into the discussions before final agreement was reached in November.

The price settled upon was 10½d sterling per pound, equivalent to 13.473d Australian, in addition to which the United Kingdom agreed to pay up to ¾d Australian per pound to cover costs of transfer from store to port in Australia.

Wool was ordinarily sold in Australia by public auctions and those for the 1939-40 season would normally have commenced in Sydney at the end of August. But the imminent threat of war had led to their postponement, so that when the Central Wool Committee met for the first time on 7th September no wool of the current season had been sold. From one point of view this simplified the committee's work but it meant that large quantities of wool had already accumulated in brokers' stores; on the other hand there was an accumulation of shipping in Australian ports offering opportunity of transport which the committee was anxious to seize, but to do so it had to introduce arrangements for the valuing, in relation to an average price yet to be agreed upon, of all this wool.

The key instrument in the process of appraising the value of individual lots of wool was the Table of Limits. Widely different in detail, but similar in principle to that used in 1916-20, the purpose of the table was to provide for the classification of the various types and qualities of wool normally produced, or likely to be produced, in Australia, in such a way that the allocation of a particular lot of wool to one of these classes would automatically determine its value in relation to the agreed average price; with the overriding necessity that the total value of all wool should yield not more than the average price.

Payments to woolgrowers would have to be made with reasonable promptness. It was undesirable to estimate these payments too conservatively, leaving a large extra payment to be made when the season ended; on the other hand the total payments could not exceed the price the British Government agreed to pay, without involving the Australian Government in a subsidy.

Prepared by a Technical and Advisory Committee, and covering 928 types and 608 sub-types of wool, the Table of Limits proved so successful that after the war it was adopted by the trade for certain purposes. To apply it to its wartime use required a staff of expert appraisers able to determine the type or sub-type of particular lots of wool. State Wool Committees, subject to the Central Committee, were given responsibility for the detailed work of appraisal, storage and shipping. Wool buyers, mainly of British nationality, but including a number of French, Belgian and Japanese buyers, were appointed as appraisers. All wool-selling brokers previously in business were appointed brokers to receive wool from the growers and to catalogue it for sale by appraisal much as they had done for the purpose of auction. After appraisal the wool became the property of the United Kingdom Government which paid for it within fourteen days.

For purposes of appraisal wool was transported to the established centres at which auctions normally took place: capital cities and, in addition, a few country towns in New South Wales and Victoria. Out of this arose pressure, particularly in Western Australia and Queensland, for additional appraisal centres. Western Australia, for example, asked that Albany, Queensland that Rockhampton, Townsville and Gladstone be used. Behind this pressure apparently lay both the desire of local wool growers to escape the cost of transport to more distant centres, and local business interests in these towns. The Central Wool Committee was firm in its opposition, stressing in particular that growers would not be permitted thus to escape transport costs which they normally bore, and making it plain that the shipping position would not permit arrangements these growers desired.

The machinery of appraisal had to make provision for the supply of wool to local manufacturers as well as still retaining the principle of bringing all wool into the scheme. This meant, therefore, that Australian manufacturers would have to purchase wool after it had been appraised, and for 1939-40 the Central Wool Committee charged manufacturers appraised prices plus an extra 1d per pound and the appropriate delivery charges. In the early stages of the scheme it proved necessary to make available to manufacturers who were filling large defence orders, some wool which had already become the property of the United Kingdom.

While the United Kingdom became the purchaser in the first instance of all wool other than that required for Australian manufacture, the ultimate destination depended upon arrangements completed for making supplies available to other approved countries. This resale was obviously likely to yield a profit by prices exceeding those paid in the purchase contract, and it was therefore part of the agreement that such profits should be divided equally between the United Kingdom and Australia. For the purpose of handling these resales to other countries the Central Wool Committee acted as the agent of the United Kingdom which notified the committee of the quantities and types of wool required for shipment to the United Kingdom itself, and the remainder was available for sale on

commercial account. Within the limits set by the United Kingdom decision as to approved countries and quantities, ordinary trade channels were used for the disposal of this wool.

These arrangements for implementing the purchase contract necessarily took some months to bring into being, whereas the rapidly accumulating supplies of wool in the first weeks of war created an urgent storage problem. Accordingly, even before final agreement upon the average price was reached, tentative appraisals had commenced and large quantities of wool were already being shipped when the agreement was finalised.

Shipping was not a serious problem. At the beginning of the war many ships in Australian ports, delayed by the outbreak of war, were available to carry the wool, and for later months of the 1939-40 season, as in succeeding seasons, the United Kingdom as a matter of policy gave high priority to shipping space for wool. In fact relative ease of shipment was the logical companion of the purchase contract and sprang from the same main reason, the vital importance of the product. Moreover, wool was an easy cargo to ship; it did not require special types of shipping or special handling, the principal modification in handling being that as far as possible wool shipped overseas was double-dumped (that is, two normal bales were compressed together).

In December 1940 the United Kingdom agreed to make available to the United States of America 250,000,000 pounds of wool as a strategic reserve for the latter Government. The wool, stored in the United States, remained the property of the United Kingdom, but the United States had the right to purchase all or part of it. Transport, storage and similar charges were undertaken by the United States. The arrangement did much to relieve the storage position in Australia.⁵

During the 1939-40 season shipping was in fact so rapidly available that there was no major storage problem. But the Central Wool Committee made early plans for storage against the risk of shipping delays and the possibility of restrictions on the export of raw wool to European countries. The committee wanted the clip of each year to be appraised within that wool year, which necessitated the provision of substantial storage in or near the appraisement centres. Accordingly the committee leased or rented stores where they were available and commenced a programme of building temporary stores. By the end of the 1939-40 season stores available would hold 240,000 bales but in the later months of 1940 the general shipping position was worsening and the committee accelerated its building of stores so that by the end of 1941 space was available to store 2,500,000 bales. The cost of these stores was met from the allowance of £d per pound above the average price which the United Kingdom had agreed to provide towards the cost of handling the wool from appraisement to shipment.

⁵ The Strategic Storage Agreement lasted until 30 Jun 1942, and the United States, in the end, purchased all the wool shipped under it—approximately 1,000,000 bales.

A later arrangement, by which the United Kingdom built up a stockpile which remained their property, and which they undertook would not be sold in the United States of America, was designed to bring a quantity of wool closer to the world's markets. In the event, the last shipment to the United States under this latter arrangement was November 1943.

A number of problems arose out of the existence of local processing and manufacturing industries. There were in 1939 in Australia some forty-four scouring plants and twelve carbonising plants, as well as businesses whose function was the reclassing and repacking of wool not in a suitable form for shipping. It was part of the agreement with the United Kingdom that the Central Wool Committee should be empowered to allocate to the scouring and carbonising plants sufficient wool to keep them fully occupied, and that it should have freedom to employ firms for reclassing and repacking where necessary. This policy was in line with the general policy of employing the peacetime trade organisations on wartime tasks most similar to their normal ones. The only serious difficulty arose with a large number of firms and persons operating in country areas as dealers in small and broken lots of wool which under peacetime conditions came to the market most conveniently through these dealers. Their activities proved difficult to control in 1916-20 when they had been allowed to continue buying in lots not exceeding £10, and in 1939 the committee treated them as agents acting on its behalf and gave them permits to purchase wool with provision that the growers should ultimately receive their appropriate share of the appraised value of the wool.

As time went on it became necessary to modify the arrangements for the supply of wool to Australian manufacturers. For the season 1940-41 the manufacturers were required to pay for wool, purchased by them after appraisement, the appraised price plus $7\frac{1}{2}$ per cent. Until the end of 1940 nearly all manufactured woollen goods concerned were either for Australian service orders or for the Australian civil market, but after its establishment in January 1941 the Eastern Group Supply Council placed large orders with the Commonwealth Government for blankets, khaki cloth and other woollen goods. This raised the question whether wool used in the manufacture of goods exported was covered by the exclusion clause in the agreement under which manufacturers had been supplied with wool. The view ultimately adopted was that wool so used should be regarded as the property of the United Kingdom. The legal question of ownership was not relevant to the availability of the wool to meet oversea orders, but to the question of price the manufacturer should pay. For wool used for goods for the home market manufacturers were being allowed very favourable terms but it was not possible at the time of purchase to know which wool would ultimately serve the home market and which would be embodied in exports, and there were constitutional obstacles to collecting the extra price, for example by an export tax. The solution embodied in special regulations was to charge manufacturers nominally higher prices for all wool purchased but to require immediate payment only of the home consumption price.⁶ The extra amount had to be paid only if the manufactured goods were exported, the sanction being that before a permit could be obtained to export worsted or knitted

⁶ National Security (Price of Wool for Manufacture for Export) Regulations, Statutory Rules 1941, No. 34, 17 Feb.

woollen goods, the extra price had to be paid to the Central Wool Committee.

A similar problem arose with wool tops, the making of which was an old-established industry in Australia, but at the outbreak of war exports were modest, output being under 5,000,000 pounds. The principle of the purchase contract required the control of the export of tops, but it was desired to interfere with the normal interests of trade as little as possible, and a different approach was followed under the Wool Tops Regulations.⁷ Top makers obtained their wool on the same basis as woollen manufacturers and were permitted to sell tops abroad. But the practical effect of the regulations was that the top maker was working on commission for the Central Wool Committee, for while he had to make his sales in his own name on his own responsibility, the price of tops exported was payable to the committee, which in turn paid the maker a price based upon the amount he had paid the committee for his wool, and the costs incurred in manufacturing tops, plus an allowance for profit.

WOOL (IN TERMS OF GREASY) HANDLED BY
CENTRAL WOOL COMMITTEE AND AUSTRALIAN WOOL
REALISATION COMMISSION

	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	million lbs	million lbs	million lbs	million lbs	million lbs	million lbs	million lbs
Opening stocks	—	166.1	583.0	584.2	1,077.9	1,552.4	1,772.4
Wool appraised ("Production")	1,165.3	1,125.4	1,167.5	1,199.8	1,192.1	1,015.0	940.0
Total	1,165.3	1,291.5	1,750.5	1,784.0	2,270.0	2,567.4	2,712.4
Shipments	890.9	583.7	1,011.4	557.4	575.1	671.7	234.3
Sales to manufacturers ("Local")	108.3	124.8	154.9	148.7	142.5	123.3	132.8
Commercial sales	—	—	—	—	—	—	898.2
Closing stocks	166.1	583.0	584.2	1,077.9	1,552.4	1,772.4	1,447.1
	1,165.3	1,291.5	1,750.5	1,784.0	2,270.0	2,567.4	2,712.4

Source: Australian Wool Realisation Commission

The original arrangement for the sale of wool excluded sheepskins. These were normally purchased in Australia by local fellmongers and sheepskin exporters in competition, and immediately before the war about 20,000,000 skins a year were involved. This obviously left a large loophole in the control of the sale of wool. The first action taken was the prohibition, on the initiative of the Prices Commissioner, of the export

⁷ Statutory Rules 1940, No. 80, 3 May.

of hides and skins, but not including sheepskins in wool. By mid-October 1939, however, the export of woolled sheepskins was brought under control by restricting the amount and confining it to established exporters. Meanwhile, in order to coordinate the control of the skins with wool arrangements, efforts were being made to induce the United Kingdom to undertake the purchase of all sheepskins available for export. That Government, with unhappy memories of a similar part of the 1916-20 purchase, was very unwilling to do so, but eventually in May 1940 agreement was reached in the interests of efficient control of the wool market. Up to the time of the agreement the chief purchaser of sheepskins had been France, which took three-quarters of Australian exports. The agreement provided that the wool on the skins should be valued appropriately with reference to the wool Table of Limits and the pelts valued separately and their values reviewed every quarter. Local fellmongers were, under Sheepskins Regulations, required to submit wool taken from skins for appraisalment and left free to dispose of the pelts.⁸ Almost immediately after the agreement was concluded however, France was overrun and a completely new situation created. Action was taken to have as many as possible of the skins fellmongered in Australia but even so skins continued to accumulate despite substantial orders from the United States of America in the later years of the war.

For the wool industry the first two years of war, until the entry of Japan created new problems, were years of prosperity and security. Even though the original agreed price was not increased, it was by the standards of the time a good price and the grower was guaranteed his market at that price. The scheme worked smoothly as is most vividly attested by the lack of publicity about its operations, and the minor nature of criticism of it.

Dairy Produce.

During the twentieth century the output of butter and cheese had been steadily expanding and to an increasing extent sale had been handled by cooperative organisations of which there were in 1939 two main ones, each built upon production by factories which themselves were cooperative. In 1917, the British Government undertook to purchase all butter available for export, an arrangement which continued until 1921. The return to free selling in an open market brought low prices together with still growing output, which prompted a succession of schemes for stabilising returns in one way or another, based upon the principle of averaging returns from export and home markets, with increasing emphasis on protection of the home market.

The first experiment was the *Dairy Produce Control Act* of 1924 which established the Dairy Produce Board, financed by a levy on butter and cheese exports. This scheme did not touch the basic question of price but centred upon improvements in quality and presentation, negotiations for reduced freights, and the establishment of a London agency to expand sales.

⁸ Statutory Rules 1940, No. 78, 2 May.

It was followed in 1926 by the famous Paterson scheme which was a voluntary producers' scheme facilitated by legislation embodying a levy on all butter produced, for the purpose of subsidising exports which were sold at less than the domestic price. This scheme continued successfully until 1934 but under the growing threat inherent in absence of any control over production. Output was continually expanding and an increasing proportion of it was being exported, so that with low oversea prices the scheme must have broken down had these trends continued. It was accordingly replaced by a compulsory stabilisation scheme, the formal structure of which was dictated, as to price, by the peculiarities of the Australian

PRICES, UNITED KINGDOM CONTRACTS
(per cwt f.o.b. Australian currency)

BUTTER

	Choice	1st	2nd	Pastry
Nov 1939 to Jun 1940				
1940-41	137s 2½d	135s 7½d	131s 1½d	127s 6d
1941-42				
1942-43	142s 9½d	141s 3d	136s 9½d	127s 6d

CHEESE

	1st	2nd	3rd
Nov 1939 to Jun 1940			
1940-41	76s 6½d	74s 0½d	71s 6½d
1941-42	83s 9d	81s 3d	78s 9d
1942-43	87s 6d	85s 0d	82s 6d

Source: *Commonwealth Year Book* No. 37

constitution in relation to interstate trade. Commonwealth and State legislation gave authority to a Dairy Produce Equalisation Committee and State Dairy Products Board to determine quotas of output to be sold locally or exported, and to determine local prices. A key point was that neither State nor Commonwealth was directly responsible for the determination of specific quotas which were the subject of agreement between producers and the Equalisation Committee. This became important after the Privy Council decision on the James case in 1936 in which, temporarily, a similar marketing scheme for dried fruits was endangered by the ruling that refusing a producer the right to send his product to another State for sale involved unconstitutional restriction of interstate trade.

After some hesitation manufacturers of dairy produce adhered to the agreement concerning quotas and the scheme had continued ever since on this basis.

In 1939 Australia was providing about twenty per cent of British imports of butter, but the British market was far more important to Australia since it took about ninety per cent of all butter exports and an even higher proportion of cheese. In Britain at the outbreak of war private import of butter was eliminated. A ration of four ounces a week was introduced in January 1940. Consistently with pre-war discussions the British Ministry of Food had already offered to purchase 75,000 tons of butter and 13,000 tons of cheese for 1939-40, with a further offer to take any more which might be available, if shipment proved possible. Settlement of the terms of the contract was very protracted, the main differences being over price, complicated by arguments about the relationship between the price to be offered to Australia and that offered to New Zealand which had been supplying greater quantities to the British market and obtaining slightly higher prices. However, agreement was finally reached and a contract made from mid-November with the usual terms of ninety per cent payment on shipment and the remainder one month after arrival of the cargo.

Within Australia arrangements to carry out this contract, and the various acquisition arrangements, were designed to keep undisturbed the equalisation scheme and especially to preserve the arrangement by which export receipts and local sales were "equalised". Butter and Cheese Regulations formally constituted a Dairy Produce Control Committee officered by the Dairy Produce Board which thereafter for the duration of the war surrendered most of its activities and retained an existence which was largely formal.⁹ Commencing on 20th November 1939 the Commonwealth acquired all butter and cheese available for export, the Commonwealth Bank making advances against shipping documents to licensed exporters for the whole of the ninety per cent which the Ministry of Food agreed to pay on shipment. At this stage the finance of the local market was left to the trading banks.

In the event, exports of butter for 1939-40 were slightly over 117,000 tons of which 103,000 were sold to Britain under the contract, but cheese shipped under the contract reached only 11,000 tons, although shipments earlier in the season had brought total exports to Britain to over 18,000 tons.

Australia opened negotiations for a further contract in June 1940, indicating that she was prepared to accept the same prices and other terms, but wished to have a contract for the duration of the war and a reconstruction period after it. The British Ministry of Food, however, while agreeing to purchase 100,000 tons of butter and 20,000 tons of cheese on these terms, was not disposed to go beyond an "understanding" that bulk purchase arrangements for Australian butter and cheese would be maintained throughout the war and for some post-war period to be

⁹ Statutory Rules 1939, No. 145, 9 Nov.

	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
	'000 tons							
PRODUCTION								
Butter	203.5	211.9	192.9	167.6	171.2	156.3	142.0	150.4
Cheese	29.3	31.1	26.7	30.1	36.1	35.8	34.6	41.2
Condensed, Concentrated Milk, &c.	32.2	40.7	54.6	76.0	70.2	75.5	76.0	81.6
EXPORTS^a								
Butter	102.4	117.1	87.3	58.1	55.5	46.5	41.8	61.4
Cheese	15.9	19.2	15.1	13.9	11.3	14.7	14.9	14.5
Condensed, Concentrated Milk, &c.	8.5	14.3	25.1	33.5	26.2	17.4	20.5	26.0

^a. Includes supplies to Services beyond Australia; excludes ships' stores.

HOME CONSUMPTION

As with meat, reliable figures are those for the later years under rationing; these represent calendar years and the total figures are not comparable with the above; consumption per head indicates changes induced by the war:—

	Average for 3 pre-war cal. years		1943	1944		1945	
	Civilians	Services	Civilians	Services	Civilians	Services	Civilians
Butter	101,000 tons 32.9 lb	18,000 tons	96,500 tons 33.5 lb	23,300 tons	80,700 tons 27.5 lb	21,900 tons	78,500 tons 26.1 lb
Cheese	13,400 tons 4.4 lb	10,000 tons	12,000 tons 4.1 lb	2,500 tons	18,000 tons 6.1 lb	3,000 tons	18,000 tons 6.0 lb

Source: *Commonwealth Year Book*

agreed upon. Because of the invasion of the Low Countries the ministry was prepared, if shipping were available, to accept at contract rates butter and cheese in excess of the contract quantities. As it turned out, the weather caused a fall in output and actual exports to Britain were only 78,000 tons of butter with an even greater deficit in cheese.

Meanwhile increasingly acute shortage of refrigerated shipping complicated negotiations about continuation of the contract. The United Kingdom did not make any definite contract for the 1941-42 season because of this, indicating that it wanted less butter, and that only of the best grade, with correspondingly more cheese because this raised less difficulty in transport, and storage. The Ministry of Food suggested 57,000 tons of butter and at least 40,000 tons of cheese. It sought also to make a bulk purchase of dried milk powder, but this proposal did not go far because of the inability to agree upon price. The prospect of reduction in butter exports implied a good deal of readjustment in the Australian industry. There were discussions with New Zealand which, in the Australian view, was getting more than its fair proportion of United Kingdom purchases, but the Ministry of Food insisted that this was a question for New Zealand and Australia to settle between themselves and Australia had to accept 57,000 tons. In any case the contract implied a very considerable change-over from the manufacture of butter to the manufacture of cheese and some arrangements for the disposal of butter of the lower grades.

The United Kingdom had offered increased cheese prices as an incentive to a changeover, but manufacturers were reluctant to extend their activities to the degree required because the United Kingdom offer was a short-term one. What was required was the organisation of temporary cheese factories which did not involve capital risks for manufacturers. The solution adopted was to make advances through the Dairy Produce Control Committee for the construction of factories, with a government guarantee against financial loss arising from any fall in price during the war and two years thereafter. As a protection against losses a levy on butter exports was imposed until accumulated funds reached £200,000. In all the Commonwealth Bank advanced £300,000 for this scheme before, in the middle of 1942, the United Kingdom, finding that it could get sufficient cheese from North America, indicated that for 1942-43 its purchases of Australian cheese would be reduced to 10,000 tons. Because of this the scheme for cheese factories was terminated, the advances to manufacturers having totalled £224,000, all quickly repaid from the proceeds of the butter levy and repayments by manufacturers.

The other problem concerned low-grade butter which Britain was no longer prepared to take and which Australia sought to sell without depressing local prices. Commencing in December 1941, with the aid of advances from the Commonwealth Bank, the Commonwealth acquired all low-grade butter. Experiments in shipping tinned butter to Britain were not successful, but processing to produce pure butter fat which did not need refrigerated shipping seemed more promising. The United Kingdom agreed to buy 2,400 tons of this and later any available quantity. As it

turned out, by the middle of 1942 production of low-grade butter was declining rapidly, and, after the entry of Japan into the war, the United Kingdom was willing to take low-grade butter again.

Eggs.

Until 1941 brought difficulties with refrigerated shipping space, disposal of egg exports involved no great change from the pre-war situation and the problems which were to come later were mainly technical ones associated with drying and pulping of eggs and other techniques for combating shipping difficulties. In the early stages of the war little more was involved than Commonwealth supervision of the wartime operation of pre-war export arrangements. Before the war there were in the three major exporting States—Queensland, New South Wales and Victoria—State marketing schemes which broadly followed the principle of diverting to export the larger seasonal increases in production, while reducing or eliminating exports from winter production with the general objective of stabilising domestic prices.

Negotiations for a bulk sale to the British Ministry of Food started immediately after war began and were completed two months later by a contract which applied in the first instance to one season only. The Ministry of Food agreed to buy 9,000,000 dozen, and undertook to provide shipping for them, and it further undertook that if it were able to provide shipping it would buy all available eggs packed for export up to the end of 1939, paying in London in sterling eighty-five per cent when the eggs were shipped and the remainder a month after arrival.

To administer these arrangements the Commonwealth Egg Control Regulations set up a supervision committee, representing established marketing organisations in New South Wales, Victoria, Queensland and South Australia, which was equipped with very wide powers, the most important being the power to prevent export of eggs except under licence.¹

The regulations provided for Commonwealth acquisition but this was allowed to remain in abeyance because the committee was at first able to restrict licences to the four State marketing authorities together with a special organisation in Western Australia. There, there were only six private exporters all of whom were licensed under an agreement by which a special committee of producers and exporters supervised arrangements on behalf of the main committee. No licences were issued for Tasmania which was expected to arrange its shipments through the Victorian marketing board.² These authorities were expected to ensure that before making exports there were sufficient supplies for local service and domestic needs. (The attractiveness of the export price might have induced the State boards to disregard these needs. Their function was to get the best return for producers, and even late in the war they continued some pre-war practices—for example in grading—which had little wartime relevance.

¹ Statutory Rules 1939, No. 144, 8 Nov.

² The State authorities were: Egg Marketing Board of N.S.W., Egg and Pulp Marketing Board of Victoria, Queensland Egg Board, and South Australian Egg Equalisation Committee.

However, mainly for shipping reasons, in this early stage the problem was not serious.)

Under this first contract pre-war trade links were preserved because, although the purchaser under the contract was the Ministry of Food, all eggs exported were sent to individual marketing firms on behalf of the ministry. Actual exports under the contract proved to be 10,250,000 dozen, although the ministry had committed itself to only 9,000,000 dozen. The financial arrangements were the typical ones for these contracts: the Commonwealth Bank advanced eighty-five per cent of the price on shipment and collected weekly from the Ministry of Food, charging exporters no interest for the few days advance involved. The remaining fifteen per cent was paid through the Commonwealth Bank after the ministry had settled in London.

PRICES UNDER UNITED KINGDOM CONTRACTS

(Australian currency, f.o.b. Australian ports)

	Eggs in Shell per doz	Frozen Whole Egg Pulp per lb	Whole Egg Powder per lb
1939-40	1s 2.7d	—	—
1940-41	1s 4.2d	—	—
1941-42	1s 4.2d	9.6d	4s 9.6d

Source: *Commonwealth Year Book* No. 37

For the following year the arrangements were substantially the same. Because of the satisfactory first contract, production was higher and it was originally estimated that 12,400,000 dozen would be available for export. The Ministry of Food was prepared to commit itself to purchase these and also to take at the same price any more which should prove to be available. The price was raised by 1½d a dozen, slightly more than the estimated increase in production costs, and the ministry now undertook to pay 90 per cent immediately upon shipment. Because the ministry attached great importance to egg imports the contract was extended for two months beyond its original termination at the end of 1940 and even then was suspended only because shipping was not available. The increase in output proved to be far greater than the estimate and in all 18,600,000 dozen were despatched under the contract. Despite this there was a large increase in supplies to the local market with a consequent fall in price which later reduced production.

For the season 1941-42 the central problem was the acute shortage of refrigerated shipping space which had become obvious early in 1941. It was in any case difficult under wartime conditions to handle eggs in shell.

The Ministry of Food wanted yet more eggs than it had been receiving and to obtain them it had to offer the Australian industry a secure market which meant finding some solution to the shipping problem. Already in 1941 this was producing serious storage and financial problems for the State marketing authorities which were not equipped to hold great quantities of eggs for long periods. The Queensland board obtained £90,000 from the Commonwealth to help it in carrying stocks.

The first arrangement proposed was that the drying of eggs should be undertaken in New South Wales and Victoria but in view of the shortage of drying plants exports from other States should continue to be in shell. Nevertheless in South Australia refrigerated shipping space was quite inadequate to carry the available eggs in this form, and a part of this State's export was reduced to pulp. By February 1942 no refrigerated space at all was available for eggs in shell, and pulping was extended to Queensland and Western Australia, the Commonwealth purchasing the whole export supply for pulping. This led to a change in financial arrangements, licensed exporters being paid in full by the Commonwealth Bank on behalf of the Department of Commerce and the costs of pulping carried by the Commonwealth. With the substitution of pulping and drying, eggs in shell disappeared from exports to the United Kingdom until the first season after the war.

Lack of plant delayed the drying of eggs. In 1941 Vestey's Limited had six plants almost completed in China and five others under construction. It was arranged to have these transferred to Australia and to make others locally. In the event six drying plants were erected in Melbourne and four in Sydney. Chinese experts were brought to Australia to supervise the operation and instruct Australians. Drying was confined at first to Victoria and New South Wales because of the shortage both of equipment and skill. Tasmanian eggs were shipped to Melbourne for drying.

Meat.

Until 1941 the meat export trade carried on much as in peacetime except that it had a very satisfactory bulk contract with Britain. The background of the organisation of exports at the outbreak of war is a story of efforts with government aid to expand the Australian share of the British meat market. These efforts began in 1922 after the end of the bulk purchase contract of the 1914-18 war. An Australian Meat Council was established followed by the *Meat Industry Encouragement Act* of 1934, broadly for the purpose of improving techniques of preparing and marketing export meat. Throughout the 'twenties European imports of meat were declining and British policy was crystallising around the principle of restricting imports in order to promote domestic production. At the Ottawa Conference of 1932 Britain made it plain that imports would be reduced, although Empire countries would be given favoured consideration within the limits of planned imports. In 1934 British policy was implemented, the plan being that imports of meat from foreign countries should be reduced by thirty-five per cent while those from Empire countries, though not

reduced, should be stabilised at their then level. The following year reductions in imports from the Empire were threatened but it proved possible to negotiate secure sales for Australian meat in 1935 and 1936, and out of these negotiations came the *Meat Export Control Act* of 1935 which established the Australian Meat Board.

The plan was to license exports, control the rate and timing of shipments, negotiate concerning freights and promote oversea sales. In practice this meant primarily seeking an increased share of the British market at the expense of foreign countries, because immediately before the war Britain was purchasing about 85 per cent of the world exports of beef, 95 per cent of mutton and lamb and 45 per cent of pork. Of Australian meat exports of more than £10,000,000, 95 per cent went to Britain.

In the course of pre-war negotiations about contracts to be made in the event of war, meat was included with those commodities which it was expected Britain would seek to purchase in bulk. As soon as war broke out the United Kingdom requisitioned all meat stocks and the Government became the sole importer of meat, but a definite contract with Australia did not follow immediately because the interests of other Empire and foreign countries complicated negotiations over price and other terms. Prices agreed upon, broadly those prevailing in the London market in 1938, were announced from the end of October and shipments began a month later. The United Kingdom agreed to buy 240,000 tons of frozen meat in the year from 1st October 1939 with greater quantities if shipping should become available. The British Ministry of Food undertook to provide shipping, which was of great importance since any serious delay would create a storage crisis.

Under the Meat Export Regulations of December 1939³ exporters were licensed and meat was shipped to the Ministry of Food which paid 90 per cent on shipment and the balance one month after arrival, when the usual provision of a Commonwealth Bank advance equal to Ministry of Food commitments was made. The execution of the contract was handled by a committee of the Australian Meat Board together with six subsidiary State committees. These arrangements involved a minimum of disturbance to the somewhat complicated structure of the Australian meat export market, which included various international companies and organisations, Australian companies concerned primarily with export, public-owned utilities operating mainly in the local market but concerned also with export, and some cooperative organisations.

In the first eighteen months of war no serious difficulties appeared. The United Kingdom necessarily gave meat high shipping priority, Australian production was well maintained, and the limit of the quantities shipped was the ability of the Ministry of Food to provide refrigerated cargo space. During the first year 276,000 tons were shipped, or fifteen per cent more than the amount definitely contracted for.

The whole situation was changed, however, by early 1941 as a result of serious shipping losses and the heavy pressure on refrigerated space.

³ Statutory Rules 1939, No. 164, 1 Dec.

When the second contract was being negotiated in the latter part of 1940 the United Kingdom was prepared to commit itself on similar price and other terms to 249,000 tons only, despite the loss of supplies—especially of bacon—from the Continent and the fact that Australian production was known to be high and expected to expand. In August 1940 when negotiations were in progress it was estimated that Australia would have a surplus of 290,000 tons.

Early in 1941 the situation worsened rapidly: in January the Ministry of Food cut the basic quantity of meat for which it definitely contracted to 198,000 tons; in February the purchase of baconer carcasses, of which 24,000 had been originally included, was cancelled; and in March the basic quantity was cut to 144,000 tons. The two Governments agreed in principle on the action they would take in handling the situation. The United Kingdom, although it could not increase its definite commitments about basic quantities, undertook that it would buy all meat which could in fact be shipped, while Australia undertook to adapt techniques to the problems of shipping, for example by deboning carcasses, telescoping carcasses, canning and drying.

The possibility of alternative markets was to be explored but as it was recognised that the scope was limited it was agreed that reserve stocks of suitable types of meat should be stored in Australia, cost of storage being shared between the two governments;⁴ but because this might relieve the Australian industry of any spur to readjustment, the arrangement provided that purchases of meat stored should be made, if possible, at prices not likely to encourage excessive output.

The whole arrangement, the best that could be agreed upon, still left serious problems for the Australian industry, especially the export lamb section. There was already a large amount of lamb in store and the period of storage was limited. Exporters who could not claim an advance from the Commonwealth Bank until meat was shipped were under increasing financial strain, while it was expected that the shipping position would grow steadily worse. Accordingly in April 1941 the Commonwealth meat purchase plan was adopted and in July implemented so far as lamb was concerned. In May 1941 the War Cabinet approved the recommendation of the Minister for Commerce that regulations be issued "giving authority to his department to control all meat supplies for home consumption as well as for export". No regulations appeared, but Commonwealth authority in both export and domestic fields was defined merely by virtue of such a decision.

As short-term measures the slaughter of sheep and lambs was suspended by deferring acceptance of them for storage, and provision was made for diverting beef, mutton and pork to canning. It was foreshadowed that the

⁴ The department followed up a resolution of the Agricultural Council that extra storage space should be provided as an insurance against delay in shipping by submitting to the full Cabinet (a) that storage should be brought to a stated proportion of annual killings, (b) that a survey be taken and establishments examined should be asked to increase accommodation, (c) that if refusal was encountered then steps should be taken to ensure emergency accommodation. The bill which was to be prepared did not eventuate, but a sub-committee of the Cabinet took up the question of assistance in order to extend cold storage for export industries. See also Sir Earle Page's statement, *Commonwealth Debates*, Vol 166, p. 369, 27 Mar 1941.

local price of lamb might be fixed at less than contract prices to encourage consumption. Local meat prices had been first brought under control in June 1941.⁵

Commencing in July the Government bought all acceptable lamb for freezing at slightly below contract price on substantially the same terms as the Ministry of Food would have done if shipment had been possible. If lamb could be shipped the small margin of profit accruing to the Government was to be devoted to subsidies for the canning of mutton and the meeting of storage charges, although it was realised that the whole cost of the scheme would require subsidy by the Government. The rest of the plan, which envisaged an active programme for the canning of mutton, was deferred; the Government indicated that if canning proved unprofitable it would buy mutton at higher prices, but improvements in shipping made this unnecessary.

The outlook late in 1941 appeared bad. It was estimated that the total amount of shipping available for moving exports of Australian foodstuffs would not exceed twenty per cent of the amount available in 1939-40, and the United Kingdom forecast that it would be able to take no more than 81,000 tons of frozen meat of which only 27,000 tons would be lamb, although it was prepared to take more canned meat. Before any definite agreement was made Japan was in the war and it seemed unlikely that even these quantities could be shipped. This precipitated the full scale adoption of the meat purchase plan substantially along the same lines as for lamb. The Australian Government undertook to buy all meat accepted for export, immediately on delivery, at margins below the British contract price of up to fifteen per cent, the differential being intended to provide the subsidies for canning and a contribution to costs of storage. It was also agreed that the Government would buy canned meat at prices designed to support the livestock markets. The plan was based on an estimate that 280,000 tons of meat of all classes would be available for export and that of this 160,000 tons could in fact be exported as frozen meat, the rest being canned. (More than 100,000 tons of the 280,000 was lamb which could not be canned.) It proved impossible to persuade Britain to go beyond 110,000 tons of frozen meat and accordingly the Commonwealth turned to the development of meat canning in all forms, setting up a Meat Canning Committee to control production and marketing.

In the event, drought so greatly reduced production that there was some difficulty in providing the 110,000 tons of carcase meat which Britain had agreed to buy, while there was rapid expansion in service demands in Australia with the coming of American forces and the return of Australian troops, so that by the middle of 1942 the meat problem had suddenly altered from one of buying and disposing of surplus, and financing an industry in difficulties, to one of urgently stepping up production.

⁵ Prices Regulation Order No. 369, 10 Jun, for lamb, mutton, beef.

	1938-39	1939-40	1940-41	1941-42 '000 tons	1942-43	1943-44	1944-45	1945-46
BEEF AND VEAL								
Production	559 ^a	535 ^a	493 ^a	534 ^a	534	500	461	407
Exports ^b	121.4	122.2	88.7	52.2	10.1	21.2	28.2	49.4
MUTTON AND LAMB								
Production	320.2	320.1	362.0	371.7	413.1	428.7	395.3	290.6
Exports ^b	83.2	111.0	106.6	78.1	90.9	76.6	65.5	25.2
PORK								
Production	37.0	42.6	50.5	58.0	39.0	45.4	42.5	35.1
Exports ^b	13.7	23.3	33.4	15.2	.89	.71	17.8	13.7
BACON AND HAM								
Production	33.2	35.0	39.8	42.4	46.8	45.7	56.2	48.6
Exports ^b	.77	1.9	2.9	2.5	2.7	6.7	4.9	8.4
CANNED MEATS								
Exports	6.6	10.3	18.9	46.4	28.9	35.5	35.0	45.8

^a. Year ended Mar for N.S.W. and Dec for S.A., W.A. and N.T.

^b. Net. Small imports of pork, bacon and ham have been deducted. The figures do not include ships' stores; include supplies to Services beyond Australia.

BULK SALES

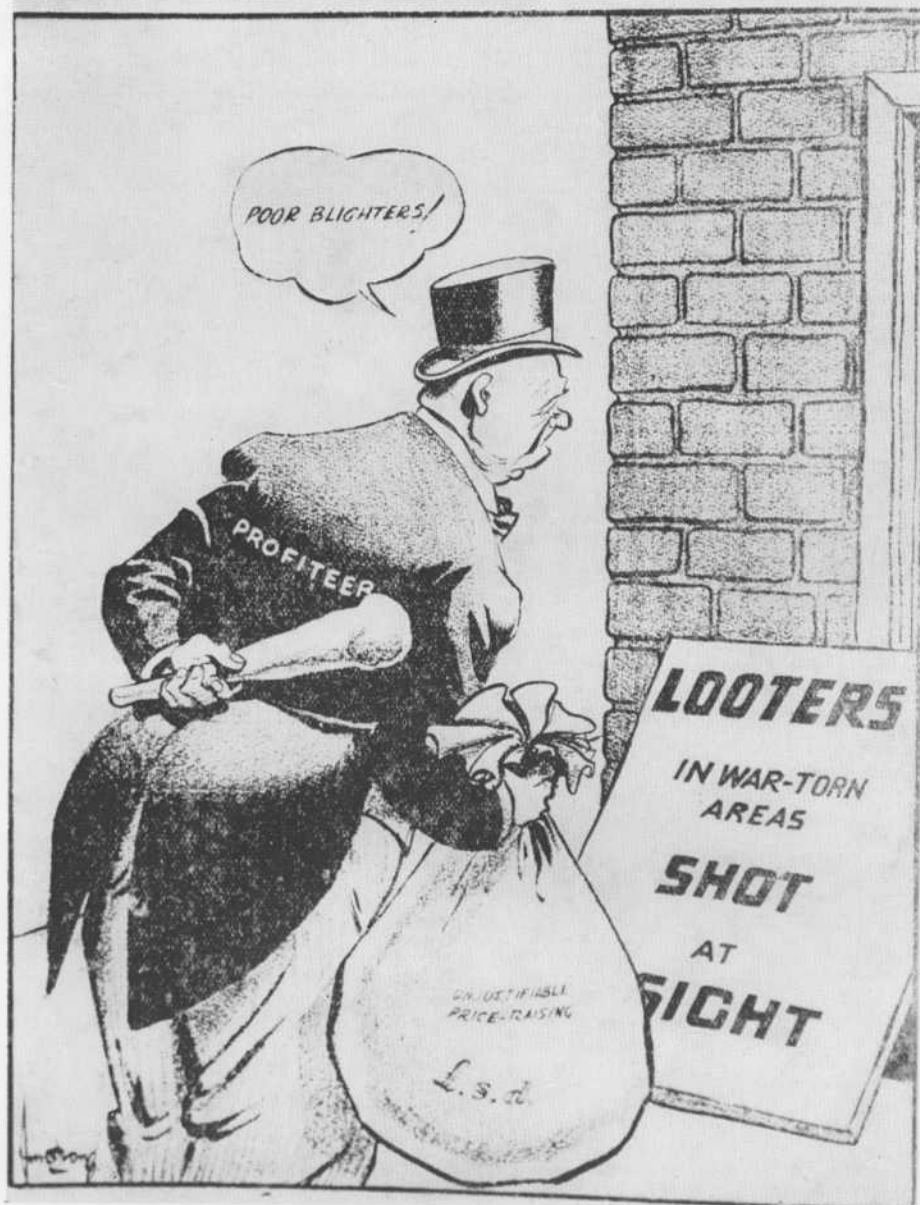
HOME CONSUMPTION

In general this may be taken as the difference between production and exports. The important effect on home consumption of heavier demands for certain meat for export, and of consumption by the Services in Australia, is not clearly recorded until the later years of the war when rationing provided statistics. These later figures are for calendar years so that gross figures differ from the above. The average per head of the population, however, indicates the changes induced by the war:—

	Average for 3 pre-war fiscal years	Services	1943		1944		1945	
	Civilians		Civilians		Civilians		Civilians	
BEEF AND VEAL	442,000 tons 144.21 lb	not available	360,000 tons 124.1 lb		104,000 tons 92.0 lb		61,000 tons 86.7 lb	
MUTTON AND LAMB	230,000 tons 74.9 lb	not available	266,000 tons 91.7 lb		24,000 tons 91.9 lb		21,000 tons 85.1 lb	
PORK	32,000 tons 10.4 lb	not available	26,000 tons 9.0 lb		5,000 tons 6.4 lb		4,000 tons 4.9 lb	
BACON AND HAM	31,400 tons 10.2 lb	20,000 tons	19,000 tons 6.6 lb		17,000 tons 10.2 lb		13,000 tons 10.0 lb	

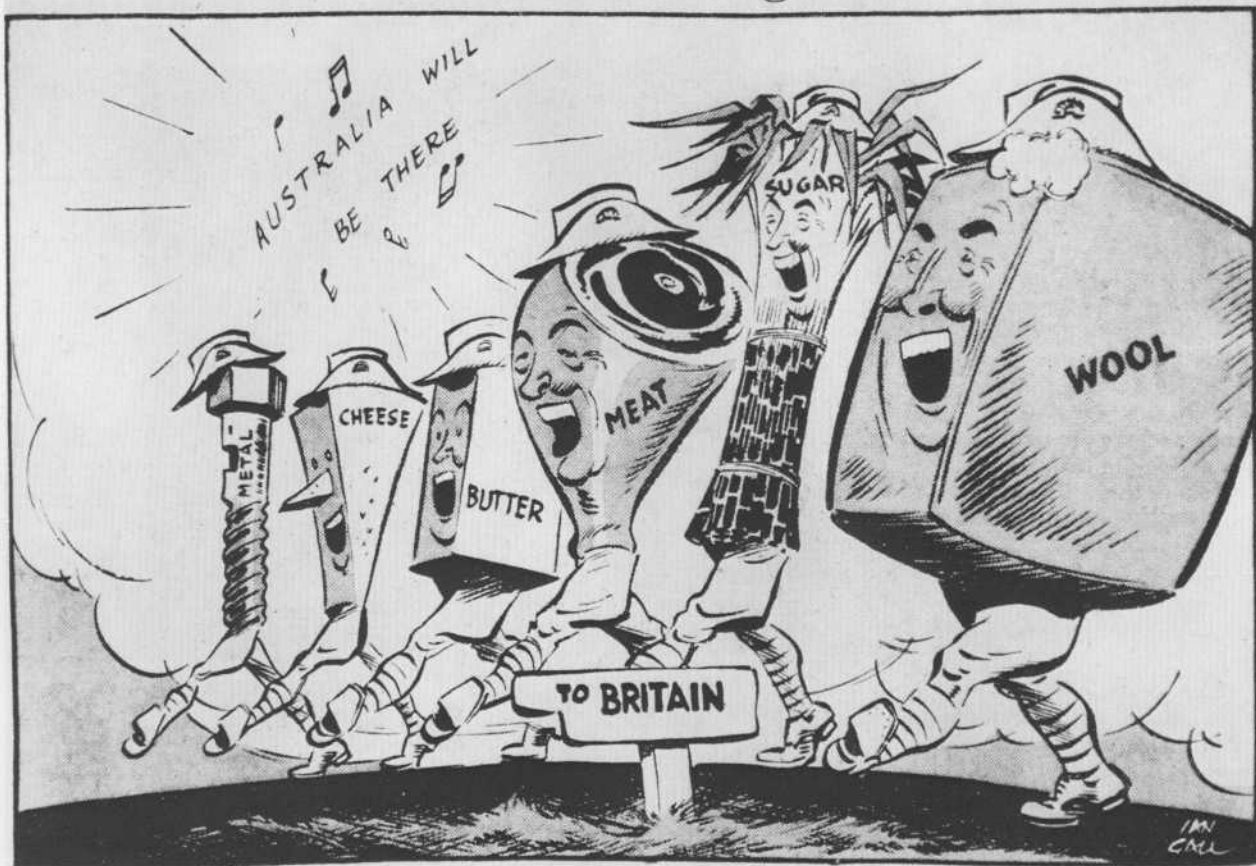
Source: *Commonwealth Year Book*

FELLOW-FEELING



Armstrong in Argus (Melbourne), 9 Sep 1939.

First Contingent



Canned Fruits.

Before the 1939-45 war Australian canned fruits were mainly peaches, pears and apricots; most of the canning was done in Victoria and New South Wales; there was less in South Australia. Some canned apricots were exported from Tasmania and canned pineapples from Queensland. The industry relied heavily on exports which accounted for about half the total pack of around 3,000,000 cases a year. From 1,000,000 to 1,250,000 of these normally went to the United Kingdom and 250,000 to other countries, so that the United Kingdom market was of considerable importance. There the industry had to face active competition from California.

In 1926 the Canned Fruits Board, a typical export marketing organisation heavily representative of producers, had been established. At the outbreak of war there were altogether twenty-six canning factories in Australia, but four of these accounted for sixty per cent of the output; in 1939 2,000,000 out of the total 2,700,000 cases were produced in Victoria. The industry had particular political significance because an important proportion of growers of fruit for canning were ex-servicemen of the 1914-18 war, whose establishment as growers had been promoted by governments.

Until some time after the outbreak of the 1939-45 war the canners believed that bulk contracts with Britain would be arranged. Canned fruits were among the commodities involved in the general pre-war negotiations and had been included in those about which definite undertakings were reached in July 1939. Moreover, in the early months of war when the Australian packing season had not opened, British imports of canned fruits had been maintained as usual from the United States, which, in this respect, had the advantages both of season and of short Atlantic shipping routes. It soon became clear, however, that the British Ministry of Food was anxious to avoid commitments concerning Australian supplies and negotiations made no progress. A conference made up of Canned Fruits Board representatives, and representatives of the canneries, in January 1940 sought to bring matters to a head by offering to sell the United Kingdom 1,500,000 cases, but negotiations nevertheless ran on, it having become clear that shipping was a major factor in British reluctance, and that the tolerance of imports of luxury food could not continue.

In March 1940 the United Kingdom prohibited all imports of canned fruit except under licence and at the same time indicated that it was prepared to consider the purchase of 500,000 cases from Australia. Protracted discussions over prices and shipping priorities ensued, during which Australian exporters had been able to despatch considerable quantities in small irregular lots, especially as liner cargo. The July 1940 agreement therefore covered purchases on bulk terms of all such shipments which had reached London or were on the way, a quantity which in the end proved to be some 671,000 cases. The total pack had turned out to be smaller than original expectations, and out of an estimated total of 1,150,000 available for export 81,000 had been disposed of by private sale so that, in round figures, there were nearly 400,000 cases to be dis-

CANNED FRUITS

'000 cases

	1939		1940		1941		1942		1943		1944		1945	
	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples	A'cots Peaches Pears	P'apples
Carry-over														
Production	3,085.3	388.3	64.0 2,587.2	392.6	97.8 2,732.6	360.0	299.0 2,125.0	224.6	2,082.5	373.4	2,307.9	110.7	2,080.9	117.2
	3,085.3	388.3	2,651.2	392.6	2,830.4	360.0	2,424.0	224.6	2,082.5	373.4	2,307.9	110.7	2,080.9	117.2
Exports includ. U.K., Services, &c.	1,757.5	93.0	1,291.0	78.1	1,111.6	60.4	1,430.4	224.6	1,743.4	324.5	1,612.2	86.1	1,449.6	117.2
Domestic Market	1,263.8	295.3	1,262.4	314.5	1,419.8	299.6	993.6		339.1	48.9	695.7	24.6	631.3	
Unsold	64.0		97.8		299.0									
	3,085.3	388.3	2,651.2	392.6	2,830.4	360.0	2,424.0	224.6	2,082.5	373.4	2,307.9	110.7	2,080.9	117.2

Note: Domestic market may be taken as the civilian market; there were, however, purchases totalling 146,556 cases during 1941-43 for civil emergency supply depots; 30,830 cases during 1943-44 for the Allied Works Council; and 102,969 cases for various government requirements. All these quantities, as well as purchases for Services and for Service canteens have been included in the "Exports".

The figures relate to seasons, and figures published elsewhere, for example the *Commonwealth Year Book*, are not directly comparable.

Source: Australian Canned Fruits Board.

posed of. It became known, probably by design, that the Ministry of Food was interested in the purchase of these but would not take the first move since it did not want to buy, or at any rate feel under obligation to buy, in the following year. It finally proved possible to make a contract for these cases in October, by which time the residual figure had fallen to 300,000 cases.

The financial arrangements were the typical ones: the Commonwealth Bank made advances against shipping documents in normal trade fashion and was repaid weekly by the Ministry of Food which paid ninety per cent of the contract price on shipment.

Because of this experience with the 1939-40 pack the question of arrangements for the following year was raised early, but after prolonged discussion Australian hopes were dashed by a cable in November from the Australian High Commissioner in London: "If shipping losses increase or ports become unusable, canned fruits would have to give way to essential commodities. Only if the shipping situation justifies it will the Ministry make purchases and in that event they will try to allot 22,000 tons of shipping space to canned fruit, which will be equivalent to 800,000 cases. If the shipping position deteriorates, these tentative ideas will of course have to go."⁶ This prospect had very serious implications for the Commonwealth Government. If in these circumstances canners were left to pursue their own interests they would necessarily purchase only small lots of fresh fruit for canning, which would imply very large additions to the domestic fresh fruit markets and the collapse of prices there. In particular it would have wrecked the apple and pear marketing scheme and would have entailed demands, difficult to resist, for a similar scheme or schemes covering all fruits.

The solution adopted was that the Government took the cabled figure of 800,000 cases as probable United Kingdom demand and guaranteed to purchase at £1 a case the amount by which actual exports to Britain up to September 1941 fell short of 800,000. In return canners undertook to accept responsibility for a further 500,000 cases, the two amounts together representing what was estimated to be available, it being provided that they should not sell any of these cases in the domestic market. Bulk prices were to be approved, if necessary, by the Prices Commissioner.

As it turned out events were not as bad as had been expected. In January 1941 the Ministry of Food offered to purchase 510,000 cases for British forces overseas, mainly in the Middle East, and yielded to Commonwealth representations on grounds of increased costs for the payment of better prices. These and later sales for Far East forces and to Canada covered the whole pack although shipping delays held up completion of sales until February 1942.

Dried Fruits.

Dried vine fruits were produced mainly on irrigated areas along the Murray River, principally in Victoria and South Australia, with lesser

⁶ Full Cabinet Agendum 512, 3 Dec 1940.

amounts in New South Wales and some in Western Australia. In its early years, the later part of the nineteenth century, the industry proved unprofitable, and in 1904 there was established the Australian Dried Fruits Association, a private organisation which in 1925 was supplemented by the government-created Dried Fruits Export Control Board. In the years immediately preceding the war the annual average output was about 95,000 tons of which the local market absorbed about 17,000. Exports were therefore vital to the industry and about half of them went to the United Kingdom, with Canada, which took twenty per cent, the next important customer, and New Zealand in third place with about five per cent. In the United Kingdom and Canada Australian dried fruits enjoyed tariff preference over their principal competitors, America and countries of the eastern Mediterranean.

Immediately after the outbreak of war the United Kingdom requisitioned all dried fruits then in England or to be imported, the reason being the high value attached to dried fruits as a concentrated food, comparatively cheap, easily shipped and stored. At the time most of the 1939 Australian crop had already been exported and by the end of the first month of war practically the whole sold. The rest of the wartime story proved to be equally satisfactory to growers despite annual negotiations, sometimes protracted and difficult, over the terms of contracts. After an annual

Average Oversea Prices, f.o.b. Australian currency, over Currants, Sultanas, Lexias

Season	per cwt
1938	36s 5d
1939	35s 2d
1940	34s 6d
1941	38s 11d
1942	42s 9d
1943	46s 4d
1944	50s 3d
1945	51s 6d

Source: Commonwealth Dried Fruits Control Board

exchange of arguments a contract was in fact made each year. Local consumption expanded, mainly because of overseas forces in Australia (local consumption rose from 17,000 tons in 1939 to 36,000 in 1944). Supplies to the civilian market in Australia had later to be restricted and after 1944 crops were diverted from wine-making for this purpose. This was a striking contrast to canned fruits which were regarded by the British Ministry of Food as luxuries. There was here no question of curtailing output or inability to sell the product, simply one of terms on which the sale should be made.

Late in 1939 negotiations were commenced for the sale of the 1940 crop when it was estimated some 53,000 tons would be available for

export. The Ministry of Food demurred, pointing out that it had been compelled as part of its economic warfare programme to purchase 40,000 tons of dried fruit from Turkey, partly to deny this to Germany, partly to reduce Turkish dependence on German-controlled markets. It was suggested too that there would be serious difficulty about shipping the quantity Australia offered to sell, and the Ministry of Food was not prepared to discuss quantities beyond 24,000 tons. The main difference of opinion proved to be price for this quantity, with secondary argument over the method of payment. The Ministry of Food insisted upon the basis of pre-war trade and offered to advance eighty per cent against the security of shipping documents, the remainder to be paid a month after delivery which should be taken from the London warehouse, an arrangement which was less favourable to producers than the usual terms in other bulk contracts. In the end, however, a contract was completed in May and the shipping difficulties foreshadowed did not prevent the despatch of the full amount by the end of July.

CURRANTS, SULTANAS, LEXIAS								
'000 tons (year ended 28th February)								
	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
Production	72.9	95.5	79.7	92.5	90.9	104.2	68.0	72.4
Exports	55.9	77.3	62.2	68.2	65.2	68.6	43.1	51.7
Local Consumption	17.0	18.2	17.5	24.4	25.7	35.6	24.9	20.7

Source: 25th Annual Report Commonwealth Dried Fruits Control Board

The story of the 1941 crop was substantially the same. Because it was expected that no less than 80,000 tons would be available for export, negotiations were undertaken early but it proved to be impossible to move the Ministry of Food on the terms of the contract, or to persuade it to purchase more than 33,000 tons. As sales to Canada and sales to non-government British importers continued satisfactorily, growers had no serious cause for complaint.

Sugar.

Australian sugar growing was concentrated in Queensland with a limited amount in northern New South Wales, most of the farms being comparatively small. Sugar refining, on the other hand, was almost entirely controlled by the Colonial Sugar Refining Company. Since 1915 the industry had operated within the framework of an agreement between the Commonwealth and Queensland Governments, renewed broadly along the same lines at five-yearly intervals, under which the Commonwealth prohibited the import of sugar, and in return the Queensland Government undertook responsibility for control of production within its borders, and

the refineries accepted certain responsibilities. One of these responsibilities was adherence to prescribed selling prices with arrangements for averaging returns from the home market and the much lower ones from export. There was an annual contribution to the Fruit Industry Sugar Concession Committee for the purpose of reducing the net cost of sugar for jam making and fruit canning. There were a number of less important obligations such as payments by the industry of rebates on manufactured goods involving sugar, which were exported; an undertaking to ensure supplies in Tasmania where there was no refinery; and the payment of award rates for employees in the industry.

Under the International Sugar Agreement Australia was guaranteed an export market of 400,000 metric tons a year, but this agreement expired early in the war and although its continuance in principle was agreed upon, war conditions made it irrelevant.

	SUGAR '000 tons							
	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
Production	823.1	928.6	806.4	746.0	649.9	523.9	669.9	665.9
Exports (Net)	443.0	524.2	374.7	196.9	66.3	95.8	114.0	151.0

Old season's sugar in stock at the commencement of the following season: (The industry's wartime difficulties are illustrated by the following figures. Normally, before the war, all sugar had been shipped (or railed) a short time after the crushing season finished, and long before the new season started.)

June 1939	June 1940	June 1941	June 1942	June 1943	June 1944	June 1945	June 1946
5.8	.9	4.2	30.3	9.5	16.6	42.7	22.6

Source: *Commonwealth Year Book* and Colonial Sugar Refining Co.

The 1939 crop was exceptionally large, but immediately after the outbreak of war it was possible to make an agreement with Britain for export sales at satisfactory prices. More than 200,000 tons had already been sold to the United Kingdom which undertook to buy whatever additional quantity was available for export at a price of £11 5s sterling per ton. This proved to be 323,000 tons. The industry was protected from increases in freight or marine insurance for which responsibility was accepted by the British Sugar Control Board. The following year and again in 1941 agreement along the same lines with modest increases in price was achieved. The total amount exported in 1940 and 1941 was below the level of 1939, primarily because of reduced production. In part this decline was the result of seasonal conditions but the industry very early began to suffer special wartime difficulties.

One of these was the shortage of appropriate fertilisers, the effects of which took some time to show in yields. Another was the loss of manpower on farms. Contrary to popular belief the wholesale internment of Italians in 1940 was of little account, a much more important factor being that cane-cutting called for workers of a type most sought after by the army. From the outbreak of war therefore, there was a steady decline not only in total production but, more strikingly, in yield per acre, much greater proportionately than the decline in the number of farms or the area cultivated or in the area cut for crushing. (It is uneconomical to defer the cutting of mature cane for very long.)

In common with other industries sugar suffered increasingly from shipping difficulties both from Queensland to other States, and for export, so that by 1941 it was clear that special provision would have to be made for storage. The Commonwealth Government undertook the cost of constructing storage for 40,000 tons of raw sugar on condition that the sugar mills provided at least an equal amount of storage.

In the early stages of the war, therefore, the sugar industry was in a happy position by contrast with a number of other major primary industries. Its total output had certainly fallen, in part because of war conditions, and it was experiencing to some degree the manpower and other difficulties which were becoming general, but it had preserved its secure market both within Australia and overseas, being able to rely upon selling to Britain all sugar not absorbed by the local market. Its security was underlined by the renewal, early in 1940, of the sugar agreement due to expire in August 1941.

LOST MARKETS

In the pre-war discussions Australia had been warned that Britain would not be a secure market for wheat, barley, fresh fruit and wine, because other supplies were expected to be available from nearer sources, or because the commodities were regarded as non-essential. War made these forecasts a reality, and the Government had to face for each industry a double-headed problem. There was the need to do the best that could be arranged for producers who found themselves in difficult circumstances and whose political influence was great. As against this there was the need to face facts, to adjust any plans to the certainty that markets abroad for the duration of the war would be restricted and precarious. In the main, wine was left to take care of itself, but for the other commodities the principle adopted from the beginning was to organise compulsory pooling with the idea that organised marketing under government control should secure the best total returns that were possible, and to distribute these returns equitably.

As with the group of commodities discussed in the first section of this chapter, the type of organisation used was a pre-war marketing board where it existed, as it did for apples and pears, or one specially created, as with wheat and barley, all being alike in the predominance of producers' representatives. The financial arrangements were to the standard pattern: the Commonwealth Bank made successive advances to be paid

to growers in the light of expected returns from sales, although for apples and pears the advances implied very optimistic expectations.

In all industries the problems would have been greatly simplified had there been drastic restriction of production, but all moves in this direction aroused the greatest hostility, and attempts to implement such a policy on a moderate scale were met by substantial evasion. In practice in these first two years any large reductions of output were the result of the weather. The Government was accordingly forced to seek to maintain producers' incomes because each of these commodities was in its own way politically important. Wheat was produced by large numbers of growers, widely distributed throughout the Commonwealth, but concentrated by climate and soil conditions so that particular electorates might be dominated by wheat growers. It had been, in any case, an important export and there was no doubt that it would again be so. By contrast it was politically imperative to provide for apples and pears if only because they were so important in the economy of a particular area, Tasmania.

The working of the schemes was divergent mainly because of the different degrees to which export markets proved to be closed. At one extreme was barley where after all it proved possible to sell a high proportion of the crop abroad. At the other extreme were apples and pears. The cut in the export market, despite the limited success in persuading Britain in the early months of war to accept some fruit, turned out to be drastic indeed, so that a crop which growers would not agree to curtail, and which had relied heavily on export, now had to be disposed of mainly in a limited home market in which special problems of interstate shipping made it impracticable to distribute the Tasmanian crop very extensively on the mainland. It was a crop for which storage would be expensive and storage facilities did not exist on a large scale. Moreover the very nature of the crop made evasion of controlled marketing relatively easy. Local sales of wheat by a grower must necessarily be limited, but fresh fruit lent itself to sale through a multitude of channels which would be difficult to restrict.

These were the basic reasons for the unsatisfactory working of the apple and pear scheme but they were accentuated by a tendency to stampede the Government in handling the problem. For these fruits, unlike wheat and barley, a marketing organisation already existed, controlled by growers. Confronted by a crop which was beginning to reach the market when war broke out and which could not, at least for that season, be stored in any substantial quantity, the Government took the fatally easy line of handing the control of the pooling scheme to a marketing organisation which had been designed for a completely different purpose and which inevitably operated the wartime plan as if it were intended for those peacetime objectives to pursue which the organisation had been created.

Wheat.

Immediately before the outbreak of war the Australian wheat industry reflected the general world wheat situation. Production was expanding;

prices were low. Under political pressure governments made repeated efforts to find some way of subsidising farmers which would on the one hand keep them happy and on the other not impose too heavy a financial burden on the Treasury nor abandon all regard to the reality of the wheat market.

Wheat had shown in Australia a long history of intermittent surpluses and unprofitable production, and by the 'thirties the disease was chronic overproduction palliated by various State and Commonwealth measures such as subsidies to production based upon area, grants to growers, bounties on wheat produced, and various indirect subsidies.

Following a Royal Commission of 1934 the *Wheat Industry Assistance Act* of 1938 proposed a stabilisation scheme based upon an export price of 5s 2d a bushel, an excise on flour, varying with the price of wheat, being available to raise lower market prices to this level; if the export price were any higher a tax on wheat sold was to be used to keep the home consumption price down to 5s 2d; an amount of £500,000 was to be reserved for various purposes, the most important being the transfer of wheat farmers from unprofitable marginal lands. This question of control of acreage and the wider question of control of production was an essential point in interminable controversies and in the repeated wrangles between the Commonwealth and the States over wheat stabilisation.

Immediately before the war States other than Victoria had agreed to a Commonwealth scheme under which the governments would jointly have provided £3,500,000 over and above the proceeds of the flour tax in order to provide an average return to growers of 3s 4d a bushel.⁷ The Victorian Government would have nothing to do with control of production, which was a necessary part of the scheme, and therefore as a stop-gap measure the Commonwealth fell back on providing, in addition to an estimated £3,500,000 from flour tax, whatever amount up to a maximum of £2,000,000 might prove to be necessary to raise the market return to 3s 4d per bushel.

From 1937 world wheat prices had been falling steadily and stocks had been accumulating. By the end of 1938 prices had fallen to 2s 5d a bushel and in July 1939 reached a record low of 1s 9d. At the outbreak of war Broomhall estimated the demand of importing countries at 584,000,000 bushels for 1939-40 while the amounts available for export were estimated at:—

	million bushels
Australia	130
Canada	410
Danube countries	88
United States	85
Others	40
	<hr/> 1,041

In other words there was a probable carryover of 457,000,000 bushels.

⁷ To avoid unnecessary complexities prices are, unless otherwise stated, f.o.r. ports, which of course always exceeds the price actually paid to growers.

BULK HANDLING



In Australia the situation was even more serious than the overall figures would suggest. Normally about eighty per cent of the Australian harvest was exported, equivalent to about one-sixth of the total world exports, although the Australian crop averaged less than five per cent of world output.

Australian exports involved heavy transport costs by contrast with countries more favourably placed, such as Canada. The United Kingdom had gone some way towards building reserve stocks and apart from these its normal import of 200,000,000 bushels could be met from Canada more easily than by shipment from Australia. The Australian Government had been warned in the course of pre-war negotiations that the United Kingdom could not undertake to buy wheat in the event of war, but no warnings could have made the reality more grim than it appeared in September 1939.

Within a few days after war began the Government had determined its immediate policy: a scheme for compulsory pooling of wheat under the control of a new body, the Australian Wheat Board, comprising mainly representatives of wheat growers and sellers. The plan was government acquisition of wheat, which would be delivered by the grower in the normal way, in return for which he received a receipt for the quantity delivered on the basis of which he could claim payment, after deduction of cost of cornsacks supplied to him and the like. In settlement of his claim he would receive a certificate carrying coupons for advances which would be cleared through banking accounts. It was planned to use wheat merchants as chosen agents of the board, in part to keep them in business, and in part because of their expert knowledge and organisation; and established oversea agents acted as a selling committee in London. Until Japan entered the war there was also a selling committee in Shanghai. At the time only a modest amount of the last harvest was unsold and the acquisition of this was delayed so as not to interrupt its sale while the new organisation was getting under way. An exception was Western Australia where there were especially large stocks, all of which were acquired immediately. In New South Wales, Victoria and South Australia wheat still unsold was acquired in October there being none of any account in the other States.

In November it was decided to acquire all wheat, other than that required for farm use, harvested in the 1939-40 season. The finance of this purchase was arranged through the Commonwealth Bank to permit immediate advances to growers equivalent to 1s 7d a bushel for bulk wheat; consequently it was provided that the proceeds of the flour tax as well as proceeds from the sale of wheat should be paid to the Bank in reduction of these advances, instead of the pre-war system by which flour tax collections were paid to the States for distribution to growers.

This plan was regarded by the Government as an emergency scheme to deal with the remainder of the last harvest and with that of 1939-40 which commenced within six weeks of the Wheat Board's appointment. Looking ahead to the probable worsening of the export market in the course of

the war, the Government foreshadowed a policy of restriction of production while admitting the inevitability of continued financial assistance.

The function of marketing should remain separate from the function of financial assistance. One is the physical job of storing and selling the wheat; the other is a problem of Government finance. The physical job of storage and marketing, usually performed by the merchants and the voluntary pools, is handled, in wartime, by a special body established under the *National Security Act*, namely the Australian Wheat Board. It seems desirable that that Board should, in respect of any harvests which it handles after that of 1939-40, operate on a commercial basis, making such advances as the market prospects justify, and adjusting its accounts with the growers according to ultimate returns, including the Flour Tax.

The responsibility of Governments will thus remain clearly defined, in its two divisions, namely, the grant of any special financial assistance, and the adjustment of production, as far as possible, to existing world conditions. If we look at the position in this way, we see clearly that the Commonwealth Government's plan of stabilisation still stands, particularly as regards the control of production. We cannot continue to provide large sums of public money to support the wheatgrowers, while they go on producing unsaleable grain. Such a procedure would be demoralising and unsound.

It follows from what I have said that to sow heavily for the 1940-41 harvest would be merely to aggravate an already alarming problem. The Government will therefore take into early consideration with the State Governments and its own advisers the question of restricting production next year. I say this because, quite plainly, as we see the facts at present, it is most unlikely that finance could be available for the 1940-41 harvest on lines similar to those which are now approved for 1939-40.⁸

The immediate marketing problem facing the board was 18,000,000 bushels of the last harvest which constituted No. 1 Pool. It proved, after all, comparatively easy to sell this although not so easy to ship it. Western Australian stocks of 7,500,000 bushels were sold to the United Kingdom at 2s 8d a bushel and a contract was made for 50,000 tons of flour (equivalent to rather more than 2,000,000 bushels) at the equivalent of 2s 9d a bushel, payment to be fifty per cent on the delivery of shipping documents and the remainder two months after shipment. These were rather better than current prices even though substantially below those which had been so recently discussed as desirable minimum prices in the Commonwealth stabilisation plan of August. The Commonwealth Bank advanced £2,500,000 to permit a first advance of 2s per bushel, further payments to growers being made from the proceeds of sales. In all 9,500,000 bushels were sold abroad at an average price of 2s 8½d and 8,400,000 locally at 2s 10½d. There was a second payment to growers in April 1940 and two further small payments, the last in April 1941.

The disposal of wheat from No. 1 Pool overlapped with the problems of No. 2 Pool—the 1939-40 harvest.⁹ The crop proved to be a record of 210,000,000 bushels, of which 195,000,000 were delivered to the Wheat Board. So that growers might receive immediate cash the Government

⁸ Senator G. McLeay (Minister for Commerce), *Commonwealth Debates*, Vol 162, pp. 1695-6, 29 Nov 1939.

⁹ The numbering of wartime wheat pools was made a little confusing because a small amount of low-grade wheat in New South Wales at this time was initially treated as a separate No. 3 pool, but later its identity was merged with the No. 2.

guaranteed an advance by the Commonwealth Bank to permit a gross first payment of 2s 8½d per bushel. Local demand was estimated at 40,000,000 bushels so that the board had to seek markets for 155,000,000. By January 1940 it had succeeded in making contracts for nearly half of this—75,000,000 bushels. The United Kingdom purchased 1,500,000 tons of wheat and 150,000 tons of flour. There were also substantial sales of flour to the East: 40,000 tons to China, 25,000 to India and 200,000 to Japan. This, and a subsequent similar sale to Japan, raised serious exchange problems.

Japan was increasingly demanding cash for her exports to Australia while seeking long-term credit for her purchases from Australia. The Commonwealth Bank took the view that broadly the terms of payment for exports to and imports from Japan should be parallel, but because of the political considerations involved the Government approved of this first sale on eighteen months credit and guaranteed the Wheat Board against non-payment. Thereupon Japanese importing firms sought a similar purchase on long credit but initially this was rejected by the Government. It was finally approved reluctantly, in part because of its possible impact on Allied relations with Japan, and in part because of the pressure of exporters. Not all of this flour had been paid for by December 1941 but the amount outstanding was recovered from the Australian funds of the Yokohama Specie Bank and payment finally made in June 1942.

In its search for further markets the Wheat Board chartered ships and concentrated especially on the export of flour which made smaller demand on shipping space. During 1939-40 it succeeded in shipping 744,000 tons of flour, more than in any previous year. By November 1940 the unsold wheat from No. 2 pool was 33,000,000 bushels, but the real situation was worse than this would indicate because much of the wheat sold had not been shipped, and in fact the Wheat Board had been asked by the United Kingdom to store on its behalf wheat already purchased by it.

Despite the earlier indication of limiting the original plan to the 1939-40 harvest the Government continued it for that of 1940-41, that is No. 4 Pool. For this it made arrangements for a first advance of 3s a bushel on bagged wheat despite the obvious difficulties of export. As it turned out, however, the harvest was the smallest since that of 1919-20, to a minor extent because of reductions in acreage, but mainly because of the bad season. In New South Wales for example, the normal yield of more than 12 bushels an acre fell to 5.6. Deliveries to the Wheat Board were only 64,000,000 bushels so that in January 1941, allowing for the still unsold portion of No. 2 Pool the board had 87,000,000 bushels to market. Only 20,000,000 bushels of the No. 2 Pool sold to Britain remained unshipped. It was estimated that the local market and the export trade in flour would require 65,000,000 bushels so that only 22,000,000 remained to be sold as wheat in export markets and it proved comparatively easy to dispose of this. But the season drew to its end in increasingly gloomy conditions. Oversea production, by contrast with that of Australia, had been very large and stocks were huge. Canada alone, for example, had

a carry-over sufficient to supply the whole British market for three years. After July 1941 exchange control measures made trade with Japan nearly impossible, and in December war ended all Australian exports there. Shipping shortage had forced the United Kingdom to divert ships to the short route across the Atlantic while development of Lend-Lease meant that wheat became available to Britain from the United States. It was in these circumstances that the stabilisation plan designed in 1940 to apply at this time came into force.

WHEAT								
	1938 ^a	1939 ^a	1940 ^b	1941 ^b	1942 ^b	1943 ^b	1944 ^b	1945 ^b
	(million bushels)							
Opening stocks (including flour as wheat)	8.9	13.9	21.0	77.5	42.0	104.5	154.0	77.9
Production	187.3	155.4	210.5	82.2	166.7	155.7	109.7	52.9
Total	196.2	169.3	231.5	159.7	208.7	260.2	263.7	130.8
Exports (including flour as wheat)	124.7	97.9	94.3	58.1	44.6	37.2	91.2	19.0
Local consumption (including flour, stock feed, seed and balance on farms)	57.6	50.4	59.7	59.6	59.6	69.0	94.6	100.3
Closing stocks (including flour as wheat)	13.9	21.0	77.5	42.0	104.5	154.0	77.9	11.5
	196.2	169.3	231.5	159.7	208.7	260.2	263.7	130.8
Area (in '000 acres)	13,735	14,346	13,285	12,644	12,002	9,280	7,875	8,463

^a. Figures from separate sources arranged with view to providing pre-war comparison.

^b. Year ended 30 Nov.

Source: *Commonwealth Year Book* and other published statistics.

The words on wheat are as many as the grains in the crop. Even though the Commonwealth Government had yielded to the inescapable need of the moment, the question of a stabilisation scheme incorporating control of production had continued to be discussed from the very beginning of the war. Through 1940 there were repeated government warnings of the risk that growers would take in expanding or even maintaining their acreage. At this stage the Commonwealth was still seeking the cooperation of the States in restricting production. Thus the Minister for Commerce, Mr Cameron,¹ announced:

I feel it necessary to sound a warning to wheat-growers not to be over-optimistic in their wheat sowings this year. I base this warning on my knowledge of the marketing and shipping difficulties. . . .

¹ Hon A. G. Cameron. (1st AIF: 27 Bn 1916-19.) Maj Intell Corps 1942-44. MHA, SA, 1927-34. MHR since 1934. PMG 1938-39; Min for Commerce and for the Navy 1940; Speaker since 1949. B. Happy Valley, SA, 22 Mar 1895.

and later

Constitutionally the Commonwealth has no power to impose restriction and so far the States have given no indication that they have any desire to impose restriction themselves.²

States were not disposed to cooperate, the chief dissident being Victoria. The Cabinet submission which embodied the stabilisation plan finally debated, declared bluntly:

State Governments must accept sole responsibility for unwisdom in the extension of wheat growing and for unsound production policy. They divert attention from their own failures and faults and aggravate the demeanour of the wheat growing community by joining in the urge for Commonwealth Government assistance. The Commonwealth Government finds itself nearly always obliged by political pressure to afford assistance in forms which are known to fall short of the ideal.³

By this time the Commonwealth Government was determined to act in spite of the States by taking advantage of its wartime powers. The plan, as adopted, was given legal form in the regulations of November 1940 but was planned to apply to the 1941-42 harvest. Its central feature was a guaranteed price of 3s 10d a bushel for bagged wheat and 3s 8d for bulk wheat, to be payable in respect of an estimated marketable crop of 140,000,000 bushels, based upon an expected average harvest of 160,000,000 bushels. Any sales proceeds above this price were to be divided equally between the stabilisation fund and the growers. The fund was designed to cover government losses in years when the actual price fell below the guarantee. A Wheat Industry Stabilisation Board was established to control the scheme and wheat growers were required to register their farms and obtain licences which would set out the area that they were permitted to sow and other conditions to be observed. Registration was to be restricted to farms "from which wheat had been harvested as grain" during the period from 1st October 1938 to 1st April 1941, excluding any land which under State government schemes for dealing with marginal wheat areas had been taken out of wheat production.⁴ The intention was that if the crop available for market exceeded 140,000,000 bushels the surplus should be cut for hay as directed.

The only certain market for the crop was estimated domestic sales of 32,000,000 bushels and guesses about exports did not go beyond a hope that the carry-over from the previous crop of 24,000,000 bushels could be sold abroad. The early estimates of the crop were 142,000,000 bushels and accordingly a large storage programme was undertaken. In the event actual deliveries to the Wheat Board totalled 154,000,000 bushels; that is the plan to cut any excess over 140,000,000 for hay had not been enforced. The solution adopted was to distribute the total amount, £26,800,000, covered by the guarantee relating to 140,000,000 bushels, proportionately to growers delivering wheat. They thus received 3s 6.1d a bushel but there

² *Commonwealth Debates*, Vol 163, p. 532, 3 May 1940.

³ Full Cabinet Agendum 487, 6 Nov 1940.

⁴ National Security (Wheat Industry Stabilization) Regulations, Statutory Rules 1940, No. 268, 29 Nov 1940.

were no further payments from this No. 5 Pool for more than a year by which time the entry of Japan into the war, the different stabilisation plan substituted by the Curtin Government, and Australia's adherence to the International Wheat Agreement in 1942 had modified the whole situation.

Barley.

Barley was a crop for which, after the outbreak of war, the future looked bleak, but which nevertheless did not suffer seriously from the loss of its pre-war markets. Before the war the international market in barley was highly competitive and overall consumption was declining. The chief importers were Britain, Germany, Belgium, Holland and Denmark; the major export country was Canada, but Australia contributed on the average about 3,250,000 bushels each year.

Within Australia production was centred in South Australia which accounted for sixty-five per cent of the total, the next important State being Victoria with twenty per cent. Victorian output was in most years nearly all absorbed in local malting, while Western Australia usually made a modest contribution to exports. There was some interstate trade, mainly from South Australia to New South Wales and Queensland. The major part of exports was from South Australia and its chief markets were the United Kingdom, Belgium and New Zealand.

On the outbreak of war the United Kingdom prohibited imports of barley for malting and distilling, and thus the main external market practically disappeared at a time when it was expected in South Australia that a record crop would be harvested in the next few weeks. It was estimated that there would be available for export some 5,000,000 bushels from South Australia, 1,500,000 from Western Australia and a small amount from Victoria. It proved possible to arrange some sales of feed barley to New Zealand, and Japan made inquiries which did not go very far because she wanted special payment terms which were unacceptable. In these circumstances South Australian interests in barley growing and trade in barley pressed for compulsory pooling arrangements under government authority, and the plan which they put forward was in all essentials embodied in the regulations which established the Australian Barley Board.⁵ The board, with headquarters naturally in Adelaide, consisted of representatives of maltsters, exporters, brewers and growers, and was empowered to handle the new crop which the Commonwealth undertook to acquire for one year only, so as to make possible compulsory pooling. The pooling arrangement followed the general pattern, that is the Commonwealth acquired ownership in the whole of the crop coming on to the market and through the board accepted responsibility for its disposal, while growers received successive advances against the ultimate sales proceeds, these advances being financed by the Commonwealth Bank which in the first instance provided £700,000. The first advance made ranged from 9d to 1s 3d a bushel, according to the grade of barley, an amount

⁵ Statutory Rules 1939, No. 128, 28 Oct.

about enough to cover the growers' harvesting and delivery costs. For purposes of domestic trade the principle was adopted of a fixed price for barley supplied to maltsters in the form of a base price with various differential additions to preserve, as far as practicable, pre-war arrangements in interstate trade.

To dispose of amounts not required for normal domestic consumption the board sought to promote new uses for barley and to encourage increased local consumption, but this was not easy to achieve, and a second advance in March 1940 of 9d a bushel was well ahead of sales of the crop. The whole situation was changed in May 1940 when a contract was made with Japan for the sale of 57,000 tons (2,500,000 bushels). This amounted to nearly half the barley not required for Australian consumption, but the purchase arose from the failure of the rice crop in Korea and was not likely to be repeated. The Japanese were now prepared to pay in American dollars instead of sterling, as in their earlier proposals, and were therefore allowed terms which spread payment over eighteen months. One result of this was that the proceeds of this and several later smaller sales had not all been received when the Japanese entered the war and were not recovered until after the end of the war and then by proceedings in America against the assets there of the Japanese importing firms. Despite these later difficulties in collection, the Japanese sales, coupled with other smaller sales to New Zealand and elsewhere, cleared the whole crop by the end of 1940, roughly 8,000,000 bushels being disposed of within Australia and 4,000,000 abroad, and the final payment to growers on this No. 1 Pool was made in August 1941.

The problems of the 1940-41 crop were different, but the net result was much the same. Relatively low returns on the first wartime crop had led to a substantial cut in acreage on which the yield proved to be low because of unfavourable weather. Shortly before harvesting it was estimated that the crop would be only two-thirds that of the previous year. In these circumstances the Cabinet approved of the continuation of the scheme on the same lines for this crop. There was considerable amount of minor difficulty arising out of the divergent interests of growers and consumers in different States. For instance an attempt by the board to impose a uniform price to maltsters throughout Australia had to be abandoned in the face of trade protests against its impact on an established trade structure. Another issue was a demand from Western Australia for representation of that State on the board, a result which it ultimately achieved after an initial arrangement in which the board had a Western Australian observer at its meetings.

Queensland presented a problem of a different sort in that it already had its own government Barley Board which was involved in legal complications. Because it had previously used its acquisitions of barley as security for bank advances it could not do so now that all barley offered on the market was acquired by the Commonwealth. The small Queensland crop was exempted from acquisition without creating serious pressure from other States for similar treatment.

It had been expected before harvesting that at least 1,000,000 bushels would have to be sold abroad. The actual crop fell below the estimate, while the total local demand was greater than had been expected, even though the stoppage of sales of pork and bacon to the United Kingdom reduced the demand for feed barley. It was still possible to export to New Zealand and the whole crop was successfully disposed of with final payment to growers in March 1942.

Apples and Pears.

Outbreak of war caused a major crisis for producers of apples and pears, the two main fresh fruits relying heavily upon exports. After the 1914-18 war the acreage producing these fruits was about doubled, largely as a result of soldier settlement schemes in the 'twenties; in the 'thirties 100,000 acres were planted with apple orchards and about one-fifth that area with pears. In 1938 production was 11,000,000 bushels of apples and 2,300,000 of pears. Practically all the pears, and about ninety-five per cent of the apples were marketed as fresh fruit and in a normal year about half the apples and one quarter of the pears were exported. This required some 20,000,000 cubic feet of refrigerated shipping space in a strictly limited season from February to June. The main export market was Britain which took eighty-five per cent of the total with the rest spread over various European countries and India. All States produced these fruits but the main exports of apples were from Tasmania, about sixty per cent, Victoria and Western Australia some fourteen per cent each. Export of pears was mainly from Victoria and Tasmania with lesser amounts from Western Australia. The market was a precarious one and the industry had received various forms of government aid (amounting to £500,000, for example, between 1933-34 and 1937-38).

An early ineffectual marketing organisation was replaced in 1938 by an Apple and Pear Board designed to pursue a policy of organised marketing in the export field. The new board only commenced operations in May 1939 when it was intended that it should determine quantities to be exported and allocate quotas between States, plan shipments with an eye to regulating supplies reaching overseas markets, including collaboration with New Zealand exporters. Consistently with these objectives the board was composed overwhelmingly of growers, who had eleven representatives; in addition there were four representatives of exporters and one government member. It was intended that after the first three years growers' representatives should be elected by the growers themselves. This was clearly an organisation for extracting from the market the best possible prices.

Before the war broke out Australia had been warned that refrigerated shipping was not likely to be allocated to fresh fruit; and after war began it was clear that even coastal shipping space would be very severely limited. It did in fact prove possible to send some fruit by neutral ships but the amounts were necessarily small and the industry therefore had to face the virtual disappearance of exports. This implied that unless action

were taken, supplies to the domestic market would be suddenly doubled with all that meant for price. The best comfort the United Kingdom could give in response to pleas was an offer to make shipping space available after demands for priority commodities had been met, space which was quite likely not to exist, and certain not to exist for large amounts of fruit.

In these circumstances the Government was compelled to take action to stabilise producers' incomes by controlling the disposal of fruit within Australia. The plan adopted was that the Commonwealth acquired the apple and pear crop from 1st March 1940 and established a marketing committee of the Apple and Pear Board, to which were given the problems of disposing of the crop and distributing payments to farmers. Most of the difficulties which followed stemmed from this decision that a marketing control scheme, which must in any case have been difficult to administer, should be handled by a producers' organisation which had been created for the purpose of improving returns to growers.

The scheme provided that all growers who farmed an acre or more should register, giving details of their plantings and their production over the previous three seasons, together with estimate of their crops for 1940. On the basis of this information, in January 1940 probable crops from each grower were "assessed" and on seventy-five per cent of this estimated output the grower received 2s a bushel for apples and 3s for pears, with a further 1s to be paid from April on actual amounts delivered. The costs of cases, packing, storage and the like, were to be borne by the board.

In the light of the market situation these were generous arrangements, but they were not accepted by growers' representatives without a great deal of heartburning because, while they were generous for the industry as a whole, they involved drastic departures from pre-war interstate relationships and important changes in the structure of the export market. A decision was made, for example, with obvious good sense, that any exports which proved possible should in general be made from Western Australia to economise shipping; this appeared to Victorian and Tasmanian growers to increase their problems of selling in local markets. So much of pre-war exports had been from Tasmania that on the mainland and especially in the eastern States, growers had had, as compared with Tasmanians, a preferred position in the local market. They were concerned that they could not now continue supplying these markets, without being called upon to share in what they regarded as a crisis for Tasmanian exporters.

In the organisation of the export market the board aroused hostility by not appointing as its export agents merchants and agents engaged pre-war in export from New South Wales and Victoria. The reason for this decision was the expectation that any exports would be from Western Australia and from Tasmania (including probable shipments to the mainland) and hardly at all from other States. Nor did the board see any good reason for employing all the former export agents in Tasmania and Western Australia. For Tasmania, for instance, it appointed out of twenty-two export agents only five, choosing those whose principals were in London. Although reasons for these decisions were fairly obvious, agents who

APPLE-A-DAY BLUES



Armstrong in Argus (Melbourne), 8 Apr 1940.

suddenly found themselves out of business could scarcely be expected to welcome the situation.

This fairly widespread dissatisfaction was a not unimportant factor in the administration of the scheme as it worked out in 1940. It soon became clear that the amount to be advanced to growers on the basis of their estimated crops would exceed any possible market returns. It appears clear that the original assessments of crops were somewhat optimistic and they were in any case falsified by dry weather and hail damage so that the actual total crop proved to be substantially below the estimates on which advances had been paid to growers. Thus for example, 9,500,000 bushels of apples were assessed for advances but only 7,500,000 bushels of apples were delivered to the board, while with pears, deliveries were only two-thirds of the estimated crops on which advances had been paid. Apart from optimistic assessments and weather damage the gap between assessments and deliveries was explained by the determination of some growers to have the best of both worlds. The Commonwealth ownership of the crop did not operate until 1st March 1940 and growers of early varieties were therefore able to sell in the ordinary way in advance of the operation of the scheme while many growers, having obtained an advance from the board on assessment, proceeded to sell the fruit either before 1st March or subsequently, in defiance of the board. It is necessarily impossible to make any quantitative estimate of the amount of fruit sold in this way but it seems likely that it was considerable. Because of weather damage and this evasion by growers, prices realised by the board in the domestic market turned out to be lower than those on which the plan had been based, while costs of handling were higher. Plans for increasing consumption by an advertising campaign and for developing other uses for fruit, including increased drying and canning, by which it had originally been hoped to increase domestic consumption by one-third, had disappointing results. One unexpected relief was that after all it proved possible to persuade the British Ministry of Food to make shipping space available for 1,500,000 cases while smaller shipments were made to Europe and the Far East. Although the total of these exports did not reach half the pre-war exports they moved a great deal of fruit from the domestic market and but for this outlet the government loss on the first year's operations would have been very much greater than the ultimate loss of £591,000.⁶

Finance for the operations of the board had been advanced by the Commonwealth Bank, which was very unhappy about the development of the scheme. It was disturbed by the size of the debt being built up by the board and by its inability to secure information about the progress of sales, the movement of stocks, and the expenses which the board was incurring. By October of 1940 the bank would have refused to make further advances to the board but for an assurance that the Auditor-General was carrying out a searching investigation into the board's operations. His report was generally adverse to the scheme as it had been

⁶ At the time the Auditor-General's estimate of the probable financial loss was considerably higher and the *Apple and Pear Appropriation Act* of 1940 provided £750,000 to cover it.

operated, and demonstrated that, apart from serious deficiencies in the board's accounting system, the scheme had been operated more as one to give financial assistance to growers than as one designed to get the best possible market return and then distribute it as fairly as possible amongst growers. Such a result was more or less inevitable when the administration of the scheme was handed over to a grower-dominated organisation which had in any case been established to exploit the export market in the interests of growers and was now called upon to perform a totally different task in the domestic market.

The contentious result made the reorganisation of the scheme a foregone conclusion even without the fiery political discussions which preceded that reorganisation. Moreover the progress of the war had eliminated Europe from even the most optimistic expectations about exports, while the United Kingdom indicated that it would not make any imports in future, so that any scheme for the second wartime season had to be based upon disposing of the crop within Australia.

After a succession of conferences involving Commonwealth and State Governments and representatives of the industry a revised scheme was officially approved for 1941. Based upon the principle of Commonwealth acquisition of the crop a new Apple and Pear Marketing Board was established⁷ by reconstituting the marketing committee of the old board, the chairman and the deputy chairman being full-time executive members and six members being appointed from the various States. One important change in procedure was that the Commonwealth acquired the crop as from 1st January 1941 to forestall early creaming of the market by favourably placed growers. Legal loopholes for evasion were closed by explicitly prohibiting sale of fruit except by or with the approval of the board. It was sought to meet some of the criticism of growers, especially on the mainland, who in pre-war days had marketed special varieties of high quality, by adopting a so-called unit system of advances under which in place of the flat rate per bushel of the previous season there were differentials according to a complicated schedule between States and between varieties. Provision was made for some varieties not to be marketed at all, for which growers were to be paid compensation at the flat rate of 1s a tree for apples and 1s 6d for pears. (Throughout the whole scheme there was consistent opposition from growers to any techniques for preventing fruit "setting" on the trees.) The schedule of advances to be paid by the board for fruit delivered to it ranged from 5s a bushel in Queensland to 3s in Tasmania for the best fruit, down to a flat rate of 1s for the poorest qualities. These rates were influenced by early estimates that the crop would be small, but in all the circumstances the rates were attractive to growers who therefore had every incentive to deliver as much fruit as possible, while late rains in any case ensured a very heavy crop of 15,000,000 bushels. Compensation amounting to £1,045,000 was paid on an estimated 7,000,000 bushels of fruit not delivered for sale, of which sixty per cent was paid in Tasmania. Some 8,000,000 bushels were

⁷ Statutory Rules 1940, No. 276, 6 Dec.

delivered to the board, which had the problem of disposing of the fruit as best it could. Much of the fruit suffered from increasing difficulties of transport, and with no interstate delivery, and long storage, it could only be sold at very low prices. The board pressed on with attempts to develop drying, canning of fruit and production of juice. Experiments along these lines in the first season had been on a small scale and had involved loss, but during 1941 results were better. Output of dried fruits was trebled, disposing of 500,000 bushels of fresh apples and the production of canned apples was substantially increased. Considerable amounts of fruit were diverted to stock feed or disposed of by gifts to charitable organisations.⁸ In all 1,250,000 bushels of the 8,000,000 delivered to the board were disposed of as by-products, stock feed or gifts.

'000 bushels (42 lbs for apples; 45 lbs for pears)								
	1938-39	1939-40	1940-41	1941-42	1942-43	1943-44	1944-45	1945-46
APPLES								
Production	11,126	9,323	12,165	10,531	9,851	14,523	10,468	15,267
Exports	5,026	1,969	208	74	24	50	167	1,662
PEARS								
Production	2,300	2,290	2,921	2,208	2,837	2,684	2,922	2,644
Exports	655	261	7	2	2	6	.3	66

Source: *Commonwealth Year Book*

Nevertheless in the circumstances it was inevitable that there should be heavy losses. In the first season the principle had been that growers should be compensated on the basis of estimates of a crop which was expected to be about average, but did in fact prove to be sub-normal. In the second season the board had promised payments for fruit produced, whether subsequently destroyed or delivered, on the assumption of a sub-normal crop which had in fact proved to be a record. As early as September 1941 it was estimated that the loss for the season would be £1,400,000 and this amount was appropriated by Parliament, although the final total loss proved to be higher—£1,600,000.

Losses of this magnitude had been foreseeable months earlier but the Government had little option but to accept its role as long-suffering wet nurse. The industry was one in which ex-soldiers of the 1914-18 war were an important proportion of growers, and which had the backing of the Country Party. It was, moreover, so important in the economy of Tasmania that Government willingness to aid the industry would largely condition the attitude of Tasmanian electors at the 1940 elections. Much the same influences dictated the pressure on the Commonwealth from another

⁸ A great deal of public criticism about this time centred upon the destruction of unsold fruit which it was felt might have been distributed by way of gifts, for example to school children. But one major difficulty in the way of this was that much the greater part of fruit scheduled for destruction was in Tasmania and it was not practicable to make available shipping to bring it to the mainland.

quarter, for State Governments uniformly championed claims of the industry while insisting that it was a field for Commonwealth and not State action. In all these circumstances, however unwelcome the decision might be, subsidy to the industry was inescapable; a good many of the difficulties might fairly be traced to the refusal to recognise this fact. This refusal found expression in the attempt to design a marketing plan which professed to attempt to relate growers' returns to the market value of the crop, while it was obviously politically necessary to acquiesce in the administration of the scheme so that it should become concealed subsidy.

Wine.

Between the wars the production of wine in Australia had expanded very considerably. Many ex-soldiers of the 1914-18 war were settled on vineyards, one result of which was that by 1924 there was a severe production crisis which led to the institution of a bounty on wine exports. In 1925 tariff preference was secured in the United Kingdom, followed by further concessions at Ottawa in 1934, while the Australian Wine Board established in 1929 actively promoted the export of wine and the improvement of its quality.

These activities promoted further expansion of production and by 1938 the industry was facing a new crisis, temporarily alleviated by a bad season, and was urging upon the Commonwealth and the States joint action designed to limit production and restrict entry into the industry. The outbreak of war seriously accentuated the situation; some ninety-five per cent of exports, which ordinarily accounted for one-fifth of total production, went to the United Kingdom, with modest amounts to Canada and New Zealand. Wine was not included in shipment priorities of the United Kingdom, which doubled its duty on fortified wines.

In December 1940 imports of wine into the United Kingdom required a licence and from January to October 1941 no licences were issued. The effect was shown strikingly in a fall in exports of wine to Britain from 3,400,000 gallons in 1938-39 to 670,000 gallons in 1940-41, although increased exports to New Zealand, Canada, and for a short period to the Far East to some extent offset this fall. It still remained serious, the drop in total exports being from 3,600,000 to 1,600,000 gallons.

The Commonwealth Government followed two lines in aiding the industry. One was to press for shipping space, and moderate shipments were in fact arranged before and after the British embargo on imports, but not nearly sufficient to carry the quantities available for export. The other was the provision of minimum prices for grapes used in the manufacture of wine and spirits and fortified spirit used in manufacture of wine.⁹ These prices as then fixed were broadly those prevailing in 1939 and they were continued during 1941 and 1942 despite claims from the industry of increased costs.

⁹ National Security (Wine Industry) Regulations, Statutory Rules 1940, No. 54, 20 Mar.

Inevitably the industry faced problems of storage, and by the middle of 1940 was seeking aid from the Commonwealth; it was estimated that to store 3,000,000 gallons of export wine would cost £370,000. The Commonwealth Government, however, was not willing to cooperate, but undertook for its part to seek additional shipping space, in which it was only moderately successful, and passed the main problem to the States. The Commonwealth pointed out that it was the responsibility of the States to introduce control over production and also to consider modification of the licensing laws, which, it was suggested, would promote local consumption. In the end the main solution was found along these lines, not so much by government action (which mainly took the form of sponsoring an advertising campaign in 1941-42) as by the transfer to wine-drinking stimulated by the shortage of beer, and by the arrival of Allied forces in 1942.

EXPORT INCOME VERSUS WAR PRODUCTION

There was a third group of exports, in which sale abroad did not present any difficulties but which did not become the subject of bulk contracts, even though they were important primarily in war production. A leading example was certain of the base metals, the story of which is primarily a production one. For many other such products the essential problem was to prevent export interfering with local production. This could be solved by the simple expedient of prohibiting export in order to give the local war demands prior claim on supplies; any surpluses could then be released for export under licence.

But with certain commodities, rabbit skins and hides and leather, there emerged a sharp conflict between the desirability of earning the maximum export income and the demands of local war production. With the outbreak of war the demand for rabbit skins was as keen as that for wool, but the marketing arrangements were highly speculative and the strong overseas demand was primarily from the United States of America and not from British war industry, so that there was no bulk contract as in the case of wool. The local Australian demand, which it was thought must be satisfied at reasonable prices, was mainly for the manufacture of military fur-felt hats. The wool contract eliminated all serious problems in local marketing arrangements for service contracts since Britain, having bought the lot, was able to supply the local market by reselling through the Central Wool Committee to local manufacturers at controlled prices. For rabbit skins there was clearly a need to have export prices as high as possible, especially in view of the dollar income involved. But this had to be reconciled with the claims of producers of hats for the Australian forces: that supply should be assured and prices reasonable.

The solution was a controlled marketing scheme, the essential purpose of which was the creation of a two-part market with separate prices for export and for local essential manufacture. Initially the hides and leather problem was of the same sort and a similar solution was adopted, although when later conditions made export of hides difficult the machinery estab-

lished for this original purpose was operated in the manner of a compulsory pool to assist an export industry in difficulties, as with the second group of exports discussed earlier.

Rabbit Skins.

The control of rabbit skins arose from the necessity of ensuring supplies for the manufacture of military hats in the face of steeply rising prices and an expanding market in the United States of America. Immediately before the war, local consumption of rabbit skins was about one quarter of the volume of exports; a very high proportion of all exports was to the United States and when that market was deprived of its supplies from Europe prices offered for Australian skins rose rapidly. Any action in relation to exports, therefore, had to pay regard to this very important source of dollars, for rabbit skins followed gold and wool as producers of dollars for Australia.

Within Australia the demand for fur-felt hats for the Services was substantial and ten mills came under Commonwealth control for the production of them. Owing to insistent United States demand and local service needs, rabbit skins rose to extremely high prices being, according to grade, two and a half to three times as high at the end of 1939 as they had been at the beginning. Accordingly manufacturers of hats urged Commonwealth control of the prices of skins.

The form of control which was adopted was dictated by the structure of the industry and the techniques of selling. In export sales the typical pre-war procedure was shipment to the United States on consignment, but within Australia auction was the general rule, and the chief selling centres Sydney and Melbourne, although it was common for buyers for export and manufacturers to buy privately. The metropolitan markets were fed by supplies from country areas which came along a variety of routes usually involving the intervention of a broker or dealer between the trapper and the metropolitan market.

After discussions with representatives of various interstate groups the wartime plan adopted was, in principle, that a levy on exports should provide a fund to subsidise lower prices in the domestic market. This required, for constitutional reasons, somewhat complicated legislation, namely an Act to authorise an export charge and another Act which established an Australian Rabbit Skins Board to administer the control scheme and to authorise the expenditure of the levy.¹ Details of the control were filled in by Rabbit Skins Regulations under the *National Security Act*.²

The board comprised representatives of "original suppliers", exporters, brokers and hat manufacturers, with a Commonwealth chairman. Skins continued to be sold at open auctions under the general supervision of the National Council of Wool Selling Brokers with the difference that brokers, exporters and hat manufacturers participating in the auctions were all licensed by the board. The Prices Commissioner, in consultation with the

¹ *Rabbit Skins Export Charges Act 1940*; *Rabbit Skins Export Charges Appropriation Act 1940*.

² Statutory Rules 1940, No. 96, 30 May.

board, determined from time to time an Australian domestic price and with the aid of a table of limits thus fixed the prices which hat manufacturers were required to pay for various grades of skins. Manufacturers thus in the first instance bought at auction in the normal way, paying the market price, and the skins they bought were then appraised by the inspectors of the board so that manufacturers might receive an appropriate rebate on prices they had paid. Necessarily the quantity of skins which each manufacturer might buy in this way was subject to limitation by the board to the amount deemed to be necessary for production commitments. The funds for payment of rebates to the manufacturers were derived from the export levy, which under the Act might not exceed 9d a pound and which was in the first instance fixed at 3d a pound, on which basis for the first season the board had a surplus of £78,000.

It was not easy to determine an essential scale of production for hat manufacturers and for a time there was somewhat ineffectual liaison between the Department of Supply and Development, which was responsible for service orders, and the Department of Commerce, which handled the allocation of skins through the board. This weakness was due in part to the frequent revision of service orders and in part to the difficulty, before the existence of the Rationing Commission, of assessing reasonable civil needs. This left some scope for manufacturers to accumulate stocks of skins at specially favourable prices, the more so because auction prices continued to move upwards, and it became necessary in October 1940 to suspend appraisals of manufacturers' purchases until they had used up surplus stocks.

Another major difficulty concerned the scope for evasion of exchange control. Skins were normally shipped on consignment and entailed more than thirty different grades, the best of which might be worth ten times the value of the most inferior, and it was common trade practice to pack in 500-pound bales in which different grades of skins would be mixed. Exporters themselves might never know the prices realised for each of the various grades of skins in a bale, so that it was extraordinarily difficult for any check to be made of the claims about the returns actually realised for a shipment of skins; there was a considerable amount of combination or collusion between Australian exporter and American importer by which the grade and price of skins was understated and the excess dollar receipts escaped the net of the dollar pool. Despite the efforts of the Commonwealth Bank and the board the elimination of this evasion proved extremely difficult until United States price control was instituted in 1942, although even then control was not watertight.

For the following season, 1941-42, the principal difficulty was the continued increase in price coupled with the scope for speculation inherent in the whole scheme. Price increases forced in June 1941 an increase in the export levy to the maximum permitted under the Act of 9d a pound and the Prices Commissioner, who was anxious to avoid raising the domestic price, urged amendment of the Act to permit a levy of up to 1s 6d a pound. The Government, however, was not prepared to take this step in order

to cover an estimated deficit of £70,000 on the season's operations. Accordingly the fixed local price for manufacturers was increased in April 1941 by one-third with corresponding adjustments in the prices of military and civil hats. The result was that the board ended its second season with a net surplus on the two years' operations of £56,000; that is, in the second season it had a deficit of some £22,000.

Hides and Leather.

Leather was regarded as of so much importance, more particularly in the production of military boots, that it was included among the first commodities whose prices were stabilised at the levels of 31st August 1939, while the Government was working out price control plans. The oversea price of leather was significantly higher, reflected in a rise in oversea prices for hides, which, if they had been allowed to operate in Australia would have made hides more valuable than the leather into which they were made. Accordingly, after a series of conferences of all the various producing and selling interests a special scheme for control of selling both locally and for export was instituted during October and November 1939.

At the beginning of October hides and skins were declared for price control purposes and their prices were set at from fifteen to twenty per cent above pre-war levels. This was followed a month later by establishment of the Hide and Leather Industries Board to control selling of hides.³ On the usual pattern, it comprised a Commonwealth chairman, representatives of cattle raisers, hide brokers, exporters, meat works, tanners and footwear manufacturers. The system initially adopted was for the board to prepare a table of limits for various classes and grades of hides which was based upon the relative prices at 31st August 1939, to which percentage increases, determined by the Prices Commissioner, were applied. Hides offered for sale were appraised by State committees and became available to buyers seeking hides for local production at prices arrived at by this technique. All hides offered above those required for Australian use were available for export and technically ownership of them was acquired by the Commonwealth. Any excess of the actual price realised overseas above appraised prices went to the Commonwealth. For some time leather exported was dealt with by the board notifying the price to be paid by the exporter to the board.

The working of this scheme was upset by the serious shipping difficulties and the sudden slump in the oversea hide market after the fall of France, which built up in Australia, by the end of June 1940, an accumulation of 64,000 hides intended for export, but unshipped. The board met the difficulty by a stabilisation arrangement which continued thereafter throughout the war. The system of appraisement of hides was continued but selling under the control of the board was divided into two stages. At the first sale hides were available at appraised prices to tanners for use in

³ National Security (Hide and Leather Industries) Regulations, Statutory Rules 1939, No. 153, 17 Nov.

Australia. At the second sale hides not sold at the first were available to the highest bidder among hide exporters and tanners who made leather for export, subject to the condition that these hides or leather made from them must be exported and could not be resold in Australia. The original owners of the hides sold at the second auction sales were paid compensation calculated as the appraised price less the margin between the appraised price and the average of export and appraised prices.

The board had to deal with complaints from South Australia and Queensland of what firms in these States regarded as the unfair impact of the scheme. They regarded it as designed mainly for the conditions of New South Wales and Victoria. South Australian difficulties were met by a modest addition to the table of limits, but for Queensland the matter was complicated by technicalities concerning a grade of "well-grown" hides recognised by long trade practice in that State, although it appeared that the distinguishing characteristics of such a hide were not always easily identified. By modifying the classification of grades so as to permit a higher price being paid by tanners who were prepared to pay it for such hides, Queensland interests were pacified.

Despite the serious interruption to export the board was able to complete its 1940-41 year with a modest surplus of £14,000, after paying £2,600,000 compensation on hides auctioned for export at prices below appraised values. In the course of the year the board had handled the sale of 3,800,000 hides.

FERTILISERS

It is clear that shipping governed the possibility of selling primary products abroad; increasingly the production of those commodities came to be governed by the availability of fertilisers, and in particular of phosphates obtained from overseas.

Other fertilisers—nitrates and potash—were important, but for these there was local production, and while shipping restricted imports the key question was the competing demands of munitions and agriculture. In the early stages of the war the munitions authorities successfully took the view that their demand must be satisfied, and agriculture adjusted accordingly. This was, in the first two years of war, a workable solution. Modest ration of these fertilisers was effective when closed or reduced export markets lessened the urge for maximum output, while the view that men for the Services might be freely drawn from rural industries indicated official acceptance of the desirability of reduced rural production. It was a short-run solution, for later, especially from 1942, the need was to expand local food production, if necessary at the expense of munitions. Then problems of priority in demands for nitrates became urgent.

For phosphates the situation was very different. Australian soils were deficient in phosphates and the supply of these in the form of super-phosphate was accepted practice. Australia had only low-grade deposits of phosphatic rock and their exploitation was not ordinarily worthwhile;

it was not until late in the war that this solution was attempted, and then only in a limited way. Before the war the entire supply came from Nauru and Ocean Island, in the ships of the British Phosphate Commission. Manufacture of fertiliser from the rock was carried out in Australia and its use encouraged by a subsidy of 15s a ton.

Pre-war conviction that Japan would be an enemy prompted special efforts during 1939 to guard against the vulnerability of supplies. The plan followed the principle adopted for other commodities—stockpiling (in this case of six months' requirements)—and, in the event, was executed with more success than could be claimed for other vital commodities. By the end of the year 200,000 tons were in reserves in the country and it was expected that the remaining 50,000 tons would be delivered by June.

Actual war, however, created shipping problems, both in the availability of tonnage and in rapid increases in freights. Apart from the commission's own four ships, the fleet had been augmented by chartered vessels; by May 1940 three of the chartered vessels had been removed to carry food to the United Kingdom and two of the commission's four ships were likely to be requisitioned by the British Ministry of Shipping. Even before the war the Australian Agricultural Council was concerned at the declining use of superphosphate, which was attributed to price; by July 1940 a nearly three-fold increase in freight on the rock had occurred.

Early in December 1940 the event the commission had feared happened—though not at the hands of Japan—when an enemy raider attacked shipping near Nauru, sinking five ships.⁴ At the end of the month a raider shelled the loading and wharf facilities making further shipments impossible until after June 1941. Even if Ocean Island were not similarly attacked it appeared doubtful whether more than half Australian and New Zealand consumption could be met. Alternative sources of supply were canvassed—Christmas Island, Makatea, Florida—although stocks in Australia were sufficient for the 1940-41 season with a substantial margin.

The reason for concern was that despite a United Kingdom assurance that the whole Nauru-Ocean Island output would be reserved for Australia and New Zealand, the damage at Nauru was extensive; alternative sources still demanded shipping (and some of them dollars); ships were hard to come by and charter rates rising. Economy in shipping demanded that normally supplies from Christmas Island should go only to Western Australia and from Makatea to New Zealand. By June 1941 the pre-war stockpile had been drastically reduced. Already in April the Prices Commissioner had urged two grades of priority for crops, with rationing of superphosphate to the lower group, administered by the States. The Cabinet, although approving of rationing, would have no priorities. As a partial offset to rising prices for superphosphate (£3 10s a ton in 1939; £4 14s in 1941 with a further rise of £1 12s in July 1941) the Cabinet approved a subsidy of £1 5s a ton.

⁴ Three of them were those belonging to the commission. A full account is in G. H. Gill, *Royal Australian Navy, 1939-42*, in the naval series of this history.

Temporarily official rationing was avoided, the Phosphate Commission from July 1941 restricting sales to manufacturers by thirty per cent, their target being to hold consumption at the 420,000 tons (of rock) which it was believed could be imported, thus preserving an existing reserve of 350,000 tons. As early as October, however, supply prospects were so bad that a scheme for official rationing through the Department of Commerce was being canvassed. War in the Pacific created a new and more serious situation and forced even more drastic reduction in use.⁵

⁵ No attempt is made in this study to cover all aspects of wartime experience of rural industries; the problem of superphosphate has been discussed partly as a leading illustration of difficulties, but also because of its intimate connection with general export problems and especially with shipping.

CHAPTER 4

EXTERNAL FINANCE AND TRADE

WHEN an administration prepares for war many of its problems are complex simply because they escape easy definition; it was not easy, for instance, to do more than guess at the manpower problem; preparations for shipping depended on the unknown actions of an as yet unnamed enemy; but for oversea finance the problem could not only be stated simply, it could be approached with conviction that here at least there was little possibility of error or misjudgment in what should be done. Capital, in any form, must not be allowed to "fly" the country; all oversea resources must come within the scope of control, to be directed to the best interests of the common effort.

There were other factors which aided the smooth evolution of such plans and later their smooth introduction, at least over most of the fields. Australia had little experience of exchange control imposed by its own authorities. Nominally, since 1931, the exchange rate had been controlled by the Commonwealth Bank and held continuously at the rate of £125 Australian to £100 sterling, but this control depended upon cooperation of the relatively small group of trading banks who had long experience in joint action in maintaining a stable exchange rate by techniques which were in principle those of the gold standard adapted to the substitution of fluctuations in London funds for movements in gold. But there was a wealth of experience for the Commonwealth Bank to study, covering the exchange control systems of European and other countries, together with the system of import licensing introduced not long before the war by the sister Dominion of New Zealand. While exchange control in Australia did involve special local problems and complications, it was possible to draw on this knowledge, these techniques and problems, so that unknown and doubtful questions were rarely those of principle, but primarily concerned with local application. Moreover, relations between the Australian and British banking systems, especially between the Commonwealth Bank and the Bank of England, had established practices of consultation and exchange of views which made it relatively easy to reach by amicable discussion agreement on the best methods of coordinating action. In one large field, that of control of the proceeds of exports, a major part of the problem was already solved by the agreements on the bulk export contracts, which ensured that proceeds would automatically accrue to the Commonwealth Bank and accrue promptly. The control of other exports and the procedure for the control of imports were in turn aided by the fact that there was a long experience in the control of oversea trade as well as the recent if somewhat painful experience—in relation to Japan and the United States in 1936—of the problems involved in deliberate attempts to divert Australian trade between geographical areas.

Preparatory investigations for wartime exchange control were initiated well in advance by the Bank of England and for some time were conducted

WATER RESTRICTION



DEATH TO INDUSTRY!



FACTS
about the proposed
PETROL-RATIONING

- ANY RATIONING MUST UNDERMINE THE ECONOMIC STRUCTURE
- ANY UNDERMINING OF THE ECONOMIC STRUCTURE MUST REDUCE THE ALL-IN WAR EFFORT

Cover of a pamphlet issued by the Victorian Automobile Chamber of Commerce, 19th August 1940.

on a highly secret basis between the Governor of the Bank of England and the Governor of the Commonwealth Bank—so secretly, in fact, that for some time scarcely anyone in the Bank and no one in the Treasury was aware of the discussions. While there was some difference of opinion in the discussions there was no questioning of British policy, nor any serious consideration of what had happened in the other war. What had happened then in both countries was conspicuously irrelevant to what might be expected in the threatening war. For reasons of secrecy the other members of the Australian banking system were not at first included in the discussions which proceeded on the assumption that the Commonwealth Bank would exercise control as a central bank, but at a later stage, when plans had been completed, the trading banks were consulted. They promised cooperation.

Regulations for exchange control were in draft early in 1939, recognising the need for speedier action than parliamentary procedure or even Cabinet decision could provide. As the international crisis worsened signs emerged of unwarranted transfers of capital, and by August 1939 the evidence of a flight to the United States of America was unmistakable, so the Bank ceased quoting sales of forward exchange. In the last days of peace the demand for oversea exchange, particularly dollars, at both Commonwealth and trading banks, became so insistent, and was so clearly inspired by fear, that on 26th August the Commonwealth Bank raised the question of immediate introduction of control. Consultation with the Government, on whom in the end responsibility must rest, produced a decision to introduce monetary control regulations from Monday 28th August, six days before the actual declaration of war.

This was aimed primarily at the prevention of a flight of capital and was the first of four stages in the introduction of comprehensive exchange control. It was followed after a few weeks in turn by licensing of exports and control over international transactions in securities. The fourth stage, import licensing, was delayed until December and then did not apply to imports for which payment was in sterling. Broadly the purpose of the monetary control regulations was to prevent unwarranted transfers of capital, and the securities regulations aimed at ensuring that sales of securities for "hard" currencies should contribute to a pool of foreign exchange under government control and not be at the disposal of private individuals for private purposes. Export control was concerned mainly with ensuring that proceeds from the sale of exports, the main continuing source of foreign currency, should all flow into the pool. To a lesser extent it was important in controlling the quantities of scarce vital commodities which might be exported, and in providing the machinery for preventing exports reaching enemy sources. These three stages together meant that existing stocks of foreign currency would be conserved and that all new supplies coming under Australian ownership would be ultimately at the disposal of the Commonwealth Bank. The Bank, as a complete monopolist, could then prescribe the price, which, in fact, it held at the established exchange rate, and, far more important, determine for

what purposes and in what quantities foreign currency should be sold. It was for this last purpose that import licensing was essential and by contrast with the other stages it presented political and other difficulties which accounted both for the delay in its introduction and the lightness with which, for a considerable time, it was applied.

MONETARY CONTROL

The Monetary Control Regulations were concerned with a limited objective—restriction on remittances from Australia and control over the disposal of holdings of foreign currencies and gold.¹ Within this limit, the provisions were, in form, comprehensive.

Remittances in any form whatever (other than money orders) were, except with exemption from the Treasurer, permitted only through the Commonwealth Bank or its agents. Money orders were subject to conditions to be prescribed by the Treasurer, the apparent exception being merely a machinery measure because these orders were sold through post offices.² Other exceptions such as “meeting the reasonable requirements” of an Australian business fulfilling pre-war contracts, “reasonable travelling or other personal expenses”, required Treasury approval. The Treasurer also had power to acquire holdings of “any foreign currency”. Any person holding gold, other than “wrought” gold (that is mainly jewellery) or gold “for professional or trade purposes” or amounts less than £25, could be required to sell it to the Commonwealth Bank at the current fixed price.

The purposes of these sweeping clauses were two—first to confine the major part of foreign exchange transactions to the Commonwealth Bank and the other banks acting as its agents, and second to equip the Bank or the Treasury with full legal authority to extend the area of control. The substance of the policy implemented in the regulations must therefore be sought in their concrete application by proclamations and orders and in directions by the Commonwealth Bank to its agents.

The Bank promptly appointed as its agents the nine Australian trading banks and the Australian branches of the Bank of New Zealand, the Comptoir National d'Escompte de Paris and the Yokohama Specie Bank. Under the regulations agents were required to “comply with such instructions, directions and requirements” as the Commonwealth Bank should desire. The official *Commonwealth Bank of Australia in the Second World War*³ comments: “It was considered sufficient to issue from time to time instructions to banks setting out what transactions were not permitted, what were permissible without reference and what should be referred to the Commonwealth Bank for approval. At no stage was it considered necessary to verify the adherence of the banks to the requirements of the control.”

¹ Defence (Monetary Control) Regulations, Statutory Rules 1939, No. 77, 23 Aug; replaced by National Security (Monetary Control) Regulations, Statutory Rules 1939, No. 91, 13 Sep.

² For purely formal reasons export of gold and Australian bank notes was covered by a proclamation under the *Customs Act* (*Commonwealth Gazette*, 13 Sep 1939) prohibiting export except with consent. Whether the prohibition was a duplication of the regulations or not is immaterial.

³ Prepared by C. L. Mobbs. Published 1947. p. 33.

The first notice to the banks from the Commonwealth Bank, on 28th August 1939, prescribed rates of exchange and set out the transactions which were permitted, namely payment for goods already imported; payment for goods "to be imported into Australia for ordinary trade or business purposes"; reasonable travelling expenses (defined as fares plus £250 sterling for an adult plus £25 Australian for incidental expenses); sustenance for an oversea resident up to £10 sterling a week; remission of interest and dividends; charitable donations and subscriptions not exceeding £25. Broadly, exchange was available for ordinary trade or business purposes, and the banks were required to refer for approval only amounts exceeding £5,000 a month and applications in connection with "abnormal business". Forward exchange sales were permitted for goods to be imported into Australia if "the applicant is of undoubted reputation".

All persons were exempted until further notice from the obligation to surrender holdings of foreign currencies.⁴ Remittance by money order was formally limited so that no person might send, nor might any oversea resident be the payee of, orders exceeding £5 Australian in any one week, which, in view of the circumstances ordinarily surrounding the use of such orders, was no restriction on their normal use, but merely prevented (or rather limited) their use for purposes for which remittance through banks was refused.⁵

The clear purpose was therefore prevention of capital flight—particularly to neutral territory of which the United States of America was the most important. The first notice to banks carried a statement, reiterated later: "The banks are asked to exercise vigilance to prevent abuse, and particularly, to prevent anything in the nature of a transfer of capital from the Commonwealth." The official account says roundly "Any transaction even remotely resembling a movement of capital funds was, therefore, declined outright in those early months."⁶

EXPORT CONTROL

As early as April 1939 discussion between the Commonwealth Bank and the Department of Trade and Customs had considered a system of licensing exports. The chief object was to ensure that the full proceeds of all exports were received into the banking system, but at the same time the system of control must, ideally, create as little disturbance as possible to normal business practice. Two alternatives were considered: a licensing system similar to that adopted in New Zealand; and the practice that all bills of lading should be made out so that goods would be delivered to, or to the order of, a bank. The simplicity of the second was attractive, but its rigidity was not. The department which again, as on other occasions, could speak with all the confidence of experience, favoured the licensing system because its flexibility made it more suited to the varied and wide field of commodities likely to be affected.

⁴ *Commonwealth Gazette* 20 Sep 1939.

⁵ *Commonwealth Gazette* 27 Sep 1939; order dated 22 Sep.

⁶ *Commonwealth Bank of Australia in the Second World War*, p. 33.

A very substantial part of the total value and volume of exports was covered by the provisions of the bulk contracts with the United Kingdom which ensured that the sales proceeds passed directly to the Commonwealth Bank. Where the commodity, for example wool, was acquired by the Commonwealth no control problem arose since sales abroad or transfer of title to the United Kingdom and the collection of payment were handled by the Commonwealth. In other cases the normal procedure was that the Commonwealth Bank made advances against subsequent sales and itself received the sales proceeds. Designed primarily as part of the process of handling these exports, arrangements of this kind enormously facilitated the export control side of exchange control. Nevertheless there remained a wide variety of exports, many individually of modest amount, where provision had to be made to ensure that the foreign exchange earned flowed into the pool.

Accordingly the second stage of exchange control was embodied in the Customs (Overseas Exchange) Regulations which were based upon the New Zealand export licensing system introduced in 1938.⁷ The powers taken were as sweeping as those in the Monetary Control Regulations. All exports were prohibited, unless the goods were specially excepted, or a licence to export was obtained. Licences were of two types—the “ordinary” for an individual shipment, and the “special” which was a general licence to persons regularly engaged in export, to avoid a mass of paper work. Licences normally prescribed that shipping and other documents should be delivered to the Commonwealth Bank or its agent, and that the foreign currency proceeds should be sold to the same authority. The purposes were two: to provide machinery for centralising knowledge of all intended exports so that control over their destination could be exercised, and to monopolise the current inflow of foreign currency.

Exceptions were made for articles sent through the post office, for travellers’ luggage and for ships’ stores. Exports of normal amount by regular exporters to a number of Pacific Islands were also excepted; partly because of the extremely large number of parcels of groceries and other supplies involved, partly because many of these islands lacked banking or other facilities necessary to enforce the regulations. But the overwhelming bulk of exports was subject to licensing. At this stage no conditions were imposed as to the particular foreign currency acceptable for exports.

SECURITIES CONTROL

The Monetary Control Regulations had the initial objective of preventing capital transfers abroad. But there were securities held in Australia which, either because they were foreign securities, or because they were of a type attractive to foreign investors, might easily be disposed of abroad. Such transactions would not require any application to purchase foreign currency and would therefore escape the machinery set up by the Monetary Control Regulations. There were also Australian holdings of securities and other readily saleable assets which were located abroad, and

⁷ Statutory Rules 1939, No. 101, 22 Sep.

individuals might acquire foreign currency by arranging sales which were necessarily outside Australian control. Restriction of the disposal of such assets was therefore a logical corollary of the Monetary Control Regulations. Moreover, the American interpretation of neutrality before the war meant that governments in the British Commonwealth could not raise loans in the United States. In the 1914-18 war these loans had not been of much direct importance to Australia but they were vital to Britain. Now that they were ruled out the dollar needs of the Empire as a whole required that all securities and similar assets expressed in terms of dollars or readily saleable in the United States should be mobilised for war expenditure. In particular, foreign currency from this source provided a badly needed insurance against delay or difficulties in building up supplies of dollars from export and in curtailing non-essential dollar imports. Australian securities control was therefore also a natural corollary of British action to take control of dollar assets of its citizens. It was a necessary corollary, since transfers of ownership of assets between residents of the sterling area were subject to little control and without Australian action there might have been a loophole by which British residents could have avoided United Kingdom control.

The third stage in the introduction of exchange control, therefore, was the taking of power to control holdings by Australian residents of Australian and foreign securities.⁸ No one might send securities from Australia or transfer them from an Australian register without consent; *foreign* securities might not be sold without consent, and the Treasurer might acquire them or give instructions for their disposal; and returns of holdings might be required.⁹

The first step in implementing these regulations was to require returns of securities held, other than those located in and payable in the currency of the British dominions other than Canada, Newfoundland and Hong Kong.¹ At this stage, therefore, the objects of policy were first to provide the machinery for complete control and second to make a limited use of that control to prevent the export and sale of foreign securities which would otherwise be a major loophole in the monopolising of foreign currency.

IMPORT LICENSING

The fourth stage of exchange control was import licensing. Without it other restrictions had little point since control of imports implied control over the major outflow of foreign funds. But it was the subject of contention and delay long after the other controls had settled into routine. It affected the Australian people much more widely and intimately, and its impact

⁸ Statutory Rules 1939, No. 113, 4 Oct.

⁹ "Foreign securities" were defined in the regulations with an inclusive "any class of foreign securities" added. This was interpreted to include gold held outside Australia and any deposit, credit or balance with a bank or "any person whatsoever" outside the British Dominions, excluding Canada, Newfoundland or Hong Kong. Notice by Treasurer in *Commonwealth Gazette* 5 Oct 1939.

¹ Notice in *Commonwealth Gazette* 5 Oct 1939. Exemptions were given for securities the principal or interest of which was payable in sterling, for "foreign" deposits, and, a little later for shares expressed in Canadian currency and registered in Australia (*Commonwealth Gazette* 5 Oct and 25 Oct 1939).

on established business and established consumption habits brought resistance and opposition which not only deferred its introduction but dictated that the first restrictions should be confined to non-sterling imports and even there should be very light.

Discussion of the principles and techniques of import licensing had its roots in two explorations of pre-war planning: the effect of drastic reduction of seaborne trade which was feared (the strategic problem), and the necessity for exchange control (the financial problem). These explorations began independently in two sections of the administration. The Financial and Economic Committee within the Department of Defence produced, with the aid of the research staff of the Commonwealth Bank, four reports on the "Effect of the Cessation of Seaborne Trade".² The committee endeavoured to assess the degree to which seaborne trade might be curtailed on various alternative strategic assumptions. At the same time the Commonwealth Bank was developing its plans for exchange control and sought the aid of the Department of Trade and Customs in order to determine the best technique of administration of that control of imports which clearly must be part of the financial control. The Bank was not itself directly concerned with the details of the administrative procedure, its anxiety being that there should be a procedure which would direct all foreign funds into the banking system and bring all claims on those funds under control.

The Financial and Economic Committee in its first two reports recommended the creation of an "import control committee", and when this finally came into being in August with the title of Seaborne Trade Committee,³ handed over to it the problems of shipping and control of imports. The Financial and Economic Committee had in June moved to the Department of Supply and the new Seaborne Trade Committee accordingly was attached to that department, following the usual convention that a new committee should be attached to the department which proposed it. Its location reflected also the view held by the Department of Supply that wartime control of imports was peculiarly its concern. The other departments represented were Trade and Customs, Treasury, and Commerce.

Seaborne trade implied two related sets of problems, those of exports and those of imports, and the new committee, following the approach of its parent, considered both. But the senior Department of Commerce had naturally assumed the dominant role in questions associated with exports, partly because this was one of its established peacetime functions, but even more because of its concern with wartime bulk contracts. That department also carried over from peacetime, responsibility for shipping, although, in the main, shipping depended upon British policy and action.

² I Preliminary Survey 15 May 1939.

II Overseas Shipping 26 Jul 1939.

III Coastal Shipping—bulk cargoes 10 Nov 1939.

IV Coastal Shipping—general cargoes 9 Nov 1939.

³ First meeting 25 Aug 1939. Personnel: J. B. Brigden (Dept of Supply) chairman, A. C. Moore (Dept of Trade and Customs), Roland Wilson (Treasury), E. McCarthy (Dept of Commerce); from 2 Feb 1940 Sir Ernest Fisk replaced Brigden as chairman.

Accordingly the new committee had a narrower field than its name implied and directed its main attention to import problems.

The four Financial and Economic Committee reports had endeavoured to assess the percentage of trade that would remain in various strategic contingencies, but considerable uncertainty surrounded these assessments, especially when they were related to comparable British estimates. Even so, the Financial and Economic Committee tended to be more optimistic than was the navy. For the possibility that Atlantic routes would be under heavy attack and Singapore blockaded for six months (on the usual pre-war expectation of immediate Japanese participation) the committee assumed that in the first three months ninety per cent of normal trade would be possible, falling to eighty per cent by the end of the first year. The navy made its estimates in terms of shipping tonnage available and contemplated that the outbreak of war would reduce this to seventy per cent of normal, and one year of war to fifty-five per cent. These estimates are not directly comparable since the committee was apparently assuming that a reduced shipping tonnage would be used more efficiently, but its estimate was clearly the more optimistic. Even so it contemplated the desirability of eliminating forthwith all imports classified as non-essential which it assessed at twenty per cent of total imports. Not until late in the war was this degree of restriction, in fact, attained.

Disagreement and uncertainty as to the extent of overseas trade, however, did not interfere with the continuance of Australian planning, for the Financial and Economic Committee's reports were not dependent upon any precise estimates but addressed to the principles of action which a loss of shipping, expected to be serious, would demand. Its recommendations (in the first two reports) involved in the first place the establishment of priorities for shipping space, whatever percentage of space should, in fact, prove to be available. It was proposed to classify imports into four categories namely:—

1. Items vital to the maintenance of essential consumption and important Australian industries.
2. Items normally regarded as necessary.
3. Other items for which space should be provided unless the shipping emergency became very grave.
4. Items which should not in any event be imported.

This four-part grouping became the basis of later planning with the very important difference that the fourth was watered down to a concept of non-essential articles on which cuts should be concentrated. It was contemplated that domestic industry would have to be adapted in the light of these import restrictions.

As has been seen, the impetus towards early planning was both strategical and financial, but within these particular fields the specific questions implicit in recommendations such as those of the Financial and Economic Committee produced administrative confusion and conflict. On the one hand the Department of Supply was concerned with the decision as to what supplies were needed in wartime. To that end it had been

persuading importers to stockpile, at no cost to the Government, certain strategic materials. Further plans however depended upon the Government's willingness to finance these stocks, which led to the Department of Supply submitting, a few days before war, proposals which would have involved expenditure up to £1,000,000. These were also sponsored by the Advisory Panel on Industrial Organisation but were not approved. In the view of the department a significant part of the import problem was the obtaining from overseas of equipment and materials directly related to the war, but its interest ranged wider and it regarded itself as substantially responsible for the maintenance of essential civil supplies. For this reason it established a Civil Supplies Division. Moreover, considered as a supply problem, imports were not separable from local production. There was clear evidence that the Department of Supply would regard import control as very much its concern. The active part taken by the department in the sponsoring of the Seaborne Trade Committee and participation in its deliberations was more than mere interest in pre-war planning.⁴

Meanwhile the Commonwealth Bank, as has been seen, had consulted the Department of Trade and Customs concerning suitable administrative machinery for controlling those demands for foreign exchange which arose from imports. From the introduction of exchange control until the implementing of import licensing the Bank had relied upon the department's advice in allotting foreign exchange. Thus the Department of Trade and Customs was represented on the Seaborne Trade Committee on the one hand and recognised as the expert adviser by the Commonwealth Bank on the other. There were strong reasons why the department on which, in the end, the whole administration of import licensing devolved should acquire the role. It was strong by reason of its senior position in the administration; it had nurtured and developed the complicated fabric of the tariff, which provided the obvious available classification of commodities; it had developed an experienced team of administrators, accustomed to the handling of trade restrictions, who were in close contact with the large number of importers who would be affected by any scheme which might be introduced.

It was obvious that at some stage these various sectional administrative units must come together over the whole question of import control, and it was not surprising that conflict—at least between the Departments of Supply and of Trade and Customs—should emerge over the evolution of administrative machinery. For the problem of detailed administration the Department of Trade and Customs alone seem to have had the key in the ability to cope adequately with the complex questions of sorting innumerable tariff items into categories; to provide information both on the previous amounts imported and on the source and nature of imports. Conflict with the Department of Supply appeared as early as September 1939 with the submission to the Cabinet, among other matters, of "functions of the

⁴ The importance attached to import control is indicated by the fact that Bridgen, after Nov 1939 the head of the department, himself chaired the committee until early 1940.

Supply Department in time of war", in which emphasis was placed on the close link between defence and civil needs, both of which the Department of Supply set out to cover by its administrative organisation. On the other hand the determination of priorities in import, and the development of local industry to replace excluded imports, were obvious issues on which conflict of administrative interest might and did occur with the Department of Trade and Customs.

When war did come the strategic questions which had associated control of imports with problems of seaborne trade proved of small importance. There was no overwhelming dislocation of shipping. Japan did not become actively hostile. Emphasis was therefore almost entirely on the financial side of import control, on the policy pressed by Britain and on the low level and anticipated decline of London funds. It was therefore natural that the Commonwealth Bank took the lead in urging that import restriction should be implemented. Administrative organisation, however, was sufficiently occupied with the application of export control regulations to make it chary of undertaking control of imports as well, and in any case the plans for import licensing were still in the stage of general discussion of principle, and demanded considerable staff exploration and decision before they could be ready for action. The interference with normal business and restriction on habitual ways of life implied in curtailment of imports had to be faced and accepted before any specific restrictions could be adopted.

By mid-October the plan for import licensing recommended by the Seaborne Trade Committee and reviewed by a sub-committee of the Cabinet came before the full body and was modified and recast almost immediately at the Cabinet's request. The basic need was seen as conservation of non-sterling exchange (which meant primarily American dollars) and there was no immediate pressure on financial grounds to restrict imports from the sterling area. It was decided that the Treasury should take up such matters as the payment of dividends to overseas investors and remittance of motion picture royalties, since it was obviously impracticable to impose restriction on exchange for imports of goods without parallel restriction on these types of payments. The plans contemplated envisaged a cut of non-sterling imports which were regarded as non-essential by an amount equal to £3,100,000 sterling, with the proviso that for such non-sterling imports as were permitted the maximum should be equal to the imports of 1937-38. The Supply—Trade and Customs conflict on procedure was faced but not resolved. The Cabinet directed that the Department of Trade and Customs should have power to vary the allocation of commodities as between the four-categories classification which had continued since the Financial and Economic Committee first proposed it, but that all variations should be reported to the Seaborne Trade Committee and any which involved a change of policy should be submitted to that committee for decision before being implemented. A bone of contention was left over in supply certificates which had grown from the practice of the Department of Supply in giving importers certifi-

cates attesting the importance of the goods involved, in relation to defence—a procedure adapted from that of the British department of the same name. The Cabinet did not get beyond suggesting that these certificates should be issued by the Department of Trade and Customs in accordance with principles which should be laid down by the Department of Supply.

Meanwhile the Treasury had written to the Bank asking bluntly if the Board thought the “present and anticipated overseas exchange position was such as to warrant either immediately or in the near future any reduction in the total value of imports admitted to Australia”. The Bank was cautiously confident that for the time being imports might be freely permitted from sterling countries, provided abnormally large amounts were scrutinised, and they questioned whether, therefore, the application of licensing procedure was required in this case.⁵

For imports from non-sterling countries the Bank's view was that the level of imports in 1938-39 should be the ceiling, while unnecessary goods from non-sterling areas should be prohibited. The adoption of 1938-39 as the base year in place of 1937-38 used in previous discussions was partly because imports for 1937-38 had been abnormally high. Both the Bank and the Department of Trade and Customs agreed that 1938-39 was a more suitable basis. Earlier discussions had used 1937-38 simply as the latest figures then available but now that those for 1938-39 were to be had, all future discussion and decision used them as the basis.

The Department of Trade and Customs was able to report that it had completed all the necessary administrative preparations, including the classification of imports, drafting of regulations and the briefing of staff. Accordingly in the middle of November the decision was taken that import licensing should operate from the end of the month. Regulations took the form of giving a general power of control and licensing to be administered technically by the Department of Trade and Customs.⁶ For immediate application imports from sterling countries up to the level of 1938-39 were not restricted, but larger amounts were reviewed. Imports from non-sterling countries classified in category D, the non-essential class, were to be excluded altogether but the same goods might be imported from the sterling area. For goods in other categories from non-sterling countries the limit was the value imported in 1938-39, subject to discretion as to larger amounts. On the basis of 1937-38 figures the total saving in non-sterling exchange was estimated as equivalent to £3,300,000 sterling—roughly six per cent of total imports in that year from outside the sterling area. This contrasted sharply with the original proposal of the Financial and Economic Committee in May 1939 for the complete exclusion of non-essential goods, estimated at twenty per cent of total imports.

Some modest degree of review of imports was already in operation, for the Commonwealth Bank, impelled by its own concern about demands for foreign currency, had been exercising a discreet discrimination in providing exchange for doubtful items. It had in effect been the import control

⁵ Supply Dept File 239/150/234, 23 Oct 1939.

⁶ Statutory Rules 1939, No. 163, 29 Nov, notified in *Commonwealth Gazette* 1 Dec.

authority insofar as one existed, making, through exchange control, decisions about control over imports. While government policy was in the process of being defined the Bank relied on the technical knowledge of the Department of Trade and Customs and obtained its views as to whether goods were regarded as non-essential. In addition certain rough and ready rules were applied. Thus, for example, abnormally large amounts were disapproved; payments for goods unlikely to arrive for a long period were rejected. This latter implied limits on sales of forward exchange which had been made necessary also as a check to capital flight. The Bank was never happy with the unwanted responsibility of discriminating among imports, and with the introduction of licensing its difficulties in this regard were greatly reduced; reduced, says the Bank's history "to the comparatively simple question of determining the appropriate currency and form of payment to be authorised. Though it was never officially admitted, from the outset the grant of a licence was regarded as tantamount to the grant of exchange to pay for the goods to be imported".⁷ Import licensing was, however, in some measure the concern of the Bank. Supply certificates from the Department of Supply were an assurance of the priority of goods for defence purposes; the Department of Trade and Customs was the agency for the granting of licences; and the Commonwealth Bank for the allocation of funds.

The Import Licensing Regulations prohibited the import of any goods unless licences were granted by the Department of Trade and Customs to which any terms or conditions might be attached. Exceptions announced simultaneously covered goods produced in the sterling area,⁸ goods already despatched provided they arrived within three months, goods imported through the post on which duty was less than £5, and a miscellaneous group including travellers' luggage, gifts, samples and the like. For practical purposes, therefore, licensing applied only to goods from non-sterling countries, a fact which underlined the way in which shipping considerations had disappeared and the primary concern in controlling imports was control of exchange. Moreover within this non-sterling field licensing was lightly applied for the next two years. A long list of goods was classified as non-essential, sometimes from their nature, but very often because they could be replaced from Australian or sterling sources. It was thus common for an article to appear in category D as non-essential when it came from a non-sterling country and at the same time in category A, the highest level of priority, if it came from a sterling source. For categories A, B and C from non-sterling sources, importers were, in general, allowed the same value as in 1938-39. The exceptions for goods already despatched, and the later concessions in regard to goods on firm order, meant, in the event, a large flow of imports over many months in excess of the levels of 1938-39. Restriction on imports had been confidently expected by the business community even before it was known—as it was very early—

⁷ p. 34.

⁸ That is the British Empire (excluding Canada, Newfoundland and Hong Kong), British Protectorates, Egypt, the Sudan, New Hebrides. No attempt is made to trace the varying and sometimes subtle differences in the connotation of "sterling area" from time to time.

that the Government was contemplating restriction. Importers therefore naturally sought to anticipate the introduction of control by placing large orders, especially after war had actually broken out. It seems too that the import licensing authorities were too easily convinced of the need to import particular commodities above the 1938-39 level. Moreover, licences had to be granted almost as a matter of course for many non-sterling goods of high priority for war purposes. The result was that in the three months after import licensing was introduced exchange control was committed to marked increases above pre-war levels in non-sterling remittances.

IMPORT RESTRICTIONS AND THE BALANCE OF PAYMENTS

Behind all the administrative arrangements for control of foreign exchange and restriction of imports lay concern for London funds. Technically, this term covered all the liquid overseas assets of the banking system, but it was an appropriate name since these were for practical purposes all sterling. For many years these had served for Australia—and still functioned—as would a gold reserve under a gold standard. Experience in 1929-31 when a sharp and rapid fall in London funds had compelled belated depreciation of the Australian pound, had left a legacy of attitudes towards, and of perhaps undue concern for, the size and variation in London funds. This concern continued well into the war, and during the early months found its justification on the one hand in the decline in immediate pre-war years of overseas balances, and on the other in the fact that the problem of how much was available to pay for overseas expenditure and wartime imports was the problem of the level of London funds.

In the years preceding the war there had been a marked decline from relatively high levels:

Averages of weekly figures	£ A millions
March 1937 . . .	70.9
September 1937 . . .	78.2
March 1938 . . .	72.3
September 1938 . . .	70.1
March 1939 . . .	59.8
September 1939 . . .	45.8

Concern about the state of funds had been expressed as early as February 1939 when the possibility of import licensing was discussed. The Australian High Commissioner, in a position to assess the feeling in London, had commented with reserve on this suggestion. If circumstances "rendered the exchange position precarious, London would not regard import restrictions unfavourably". But nevertheless, he pointed out that New Zealand import licensing had not, in his view, been looked upon favourably.

In the event a system of control, mutually acceptable to England and Australia, was introduced in December 1939 but did not at this stage extend to restrictions on sterling imports. It was not surprising that the Financial and Economic Committee, since September a part of the Treasury, should watch, with the Commonwealth Bank, the movement

of sterling trade and of London funds. Initially they followed the line of their earlier reports on reduced shipping space and the need to import for stockpiling. At their meeting in September, the first after their reconstitution, they discussed import control plans and examined such general considerations as whether a satisfactory liaison existed between the Commonwealth Bank (exchange) and the Department of Trade and Customs (import control).

Having satisfied themselves on these points they decided that oversea trade could be left to the Seaborne Trade Committee. But though they relegated the machinery of import licensing to the other committee the financial implications continued to engage their attention. They reflected Treasury concern by an insistence upon discussing export prices and the financial terms of export contracts. Such discussions were somewhat academic since these contracts had been effectively handled by the Department of Commerce, which could claim that at least it did not accept bargain prices. Accordingly, little came of proposals such as that to tie export prices to variations in import prices.

On 31st October 1939 the Commonwealth Bank had considered certain estimates of the balance of payments which appeared to promise a modest credit surplus. On 2nd May 1940 the Financial and Economic Committee considered later estimates which showed the probability of the small surplus proving to be a small deficit. The main change was that while exports were still expected to reach high levels there was a sharp rise in the rate of commitments for imports. The Bank's view at this time was in favour of restricting sterling imports because of their fears of a downward trend in London funds. They complained, however, of the lack of information about the restriction of imports. This hampering of discussion by the lack of information was a common experience at this time. Import licensing of necessity could not be effective for some time after restrictions were applied—according to one estimate not for at least eight months. The gap between estimated and actual transport costs, which were often taken as low as 8 per cent when they might in fact be as high as 25 to 30 per cent of total costs, did not make for accurate estimates. In any case the limitation of control to non-sterling imports meant that the call on London funds could only be a matter of rough estimate. So the best that informed authorities like the Financial and Economic Committee could do was to judge that "the actual call on London funds will be less than the figures indicate".

Later in May, however, when figures had become available, it appeared that imports were entering at the rate of £180,000,000 a year. Since up to this time it had been assumed that £140,000,000 a year was acceptable, this occasioned considerable concern. The committee pointed out that if this rate were maintained, by September London funds "would be a bare minimum under peacetime conditions, and will be too low for safety under war pressure". Among the alternatives considered were: pressure for higher export prices; oversea borrowing; and restricting sterling imports.

The increase in the rate of imports reflected the conflict which was part of the introduction of import control. The estimated reduction in non-sterling imports was £3,500,000 sterling on a total of £46,500,000 sterling and the Bank, at least, had regarded this as a beginning only. Whereas it had been hoped that the beginning would be followed by further restrictions it now appeared that the rate of imports was rising steadily. But there were special factors which obstructed any vigorous reduction at this stage. In the light of international events, even before war began, importers had endeavoured to ensure future stocks, at least in part, by increasing orders, and they continued this policy wherever possible. In addition to this

BALANCE OF PAYMENTS ON CURRENT ACCOUNT

Year	Exports	Imports	Invisibles	Balance on Current Account
£ million (Australian)				
1936-37	148.2	-103.0	-35.1	10.1
1937-38	141.3	-127.2	-37.9	-23.8
1938-39	122.1	-109.4	-35.6	-22.9
1939-40	151.5	-123.3	-53.7	-25.5
1940-41	144.4	-102.1	-78.6	-36.3
1941-42	133.1	-105.1	-60.3	-32.3

MONETARY GOLD AND FOREIGN EXCHANGE HOLDINGS

June	Official Gold Holdings	Foreign Exchange Holdings	Total International Reserves
£ million (Australian)			
1936	1.1	52.8	53.9
1937	1.2	86.4	87.6
1938	1.4	76.9	78.3
1939	1.8	53.9	55.7
1940	3.8	67.9	71.7
1941	2.9	86.6	89.5
1942	2.2	66.9	69.1

Source: *The Australian Balance of Payments*, published by Commonwealth Bureau of Census and Statistics. (This publication, a postwar refinement of balance of payments data, contains detailed tables of transactions the outcome of which is summarised in the text.)

private stockpiling the early policy of the Supply Department, endorsed by the Government, had been to persuade importers to stockpile, especially strategic materials such as timber, jute and tinplate. Political pressure against import licensing was considerable, and the machinery envisaged a good deal of elasticity in the application of restrictions; and much administrative freedom was accorded the Minister for Trade and Customs. There were good reasons for this: for instance, seasonal imports made

a rigid application of the quota system inapplicable; goods in transit had been exempted from quota restrictions. Concessions were given for goods "on firm order" and these concessions were extended so widely and granted so freely that ultimately importers were permitted to bring in one-fourth of the value in the base year of their imports from non-sterling countries outside their current or future allocations of exchange. At first a time limit to 30th April was prescribed for the arrival of goods "on firm order" but this, too, was extended generally for another two months and in some cases even longer. It was natural that as shipping became more uncertain importers should seek this special treatment and that the administration, anxious to introduce the new control with as little disturbance as possible, should meet them in their demands. But since imports for defence were outside the civilian quotas it became apparent, as the war grew serious after May 1940, that the whole administration of import licensing was too liberal.

It was later contended, with some justification, that this early free importing at the cost of depleting overseas funds was a major advantage in that stocks were built up; but the fact that it was done without injury to the overseas financial position was due to fortuitous circumstances—partly the continued high receipts for exports and the maintained capital import—not to any of the reasons put forward by advocates of mild import restrictions. Moreover, the accumulation of stocks was as often in non-essentials as in important items; in May 1940, for instance, it was reported that carpets were so heavily stocked that local manufacture would probably cease.

BORROWING OVERSEAS

As will be seen, after the outbreak of war the Australian Government was disposed to rely upon advances from Britain for direct war expenditure overseas. This arose from the concern with the level of London funds at that time. Forwarding proposals to Britain in December 1939 the Prime Minister underlined the fall in London funds in recent years and advanced the view that the minimum level which could be contemplated was £50,000,000 sterling.⁹ Against this it was estimated that the Australian commitments under the Empire Air Training Scheme would be \$40,000,000 (Canadian) up to March 1943 and that an Australian expeditionary force would involve amounts roughly estimated at £5,000,000 sterling a year, to which must be added unknown costs for railway construction and forestry companies. Moreover purchases of aircraft and war materials abroad had already involved commitments over and above funds available from the June defence loan.¹ The Prime Minister's proposals were that the British Government should provide Canadian dollars to meet Australian commitments under the Empire Air Training Scheme and that for other direct war expenditure it should be accepted that Australia would make available the whole excess of its London funds above £50,000,000 sterling and that

⁹ Telegram to Dominions Office 14 Dec 1939, attached to War Cabinet Agenda 46/1939, Minute 110, 22 Dec 1939.

¹ Raised in London: £6,000,000 at 4 per cent maturing 1961-64.

the deficiency would be met by advances from the British Government on terms similar to those on loans raised by the British Government itself.²

Britain agreed to provide up to £15,000,000 Australian in this way towards Australian overseas war costs for the period to December 1940 with the proviso that the arrangement should be reviewed in November 1940. In fact by this time the high level of export proceeds had completely changed the situation. This was not fully recognised, and in November 1940 the Treasurer, Mr Fadden,³ would not go beyond the statement that

thanks to the improvement in our London funds position last financial year, and to the fact that our control of imports is now becoming fully effective, we shall be able to make a substantial contribution to overseas war costs from our own resources before the end of this financial year. The amount of the contribution will depend upon our trade balance. It will be financed by the Commonwealth Bank, which will receive Australian Government securities in exchange for the sum provided from sterling funds for overseas war expenditure. I am sure that honorable members will agree with me that in order to keep our external debt to a minimum, and to accept fully the obligations for the war effort which we have undertaken, it is desirable that we should make as large a contribution to these overseas costs as our circumstances permit.⁴

In the event, a year later, in presenting the September 1941 Budget, Fadden, now Prime Minister, reported, in effect, that Australia had covered, and expected to go on covering, the whole of its overseas war expenditure, although as a safeguard the arrangement for aid from Great Britain continued. A minor contribution to Australia's ability to meet these commitments was two large conversion operations during the preceding year which saved nearly £500,000 a year in interest.⁵ A second factor was that against Australian expenditure abroad there was now to be set payment for a wide range of war materials being supplied by Australia to other Allied governments. Oversea war expenditure for 1941-42 was then estimated at £57,000,000, only slightly in excess of the £55,000,000 worth of supplies to Allied governments. The third factor was Lend-Lease. The end result of all this was that the Treasurer concluded that whereas in 1940-41 Australia had used its £15,000,000 from the United Kingdom Government as well as providing £26,000,000 itself, for 1941-42 it was expected that no assistance from Britain would be required.⁶ Thereafter, except for the special case of Lend-Lease, overseas war finance ceased to be a problem.⁷

² This was the arrangement referred to by the Treasurer in his Financial Statement of May 1940 (*Commonwealth Debates*, Vol 163, p. 475). The adjustment of expenditure incurred by the British Government on the Second A.I.F. was referred to the War Cabinet on 5 Jan 1940 (Minute 117) and on 4 Apr the War Cabinet approved the principle that it accepted financial liability for its forces subject to such exceptions to the general principle as might be specifically agreed upon between the Commonwealth and the United Kingdom Governments. The basis of the adjustment was to be the cost of the actual issues of equipment, supplies and services made by Ordnance and Supply Depots of the British Army. The Chief Paymaster of the A.I.F. was to adjust the claims.

³ Rt Hon Sir Arthur Fadden, KCMG, MHR since 1936; Min for Air 1940; Treasurer 1940-41 and since 1949; Prime Minister Aug-Oct 1941. B. Ingham, Qld, 13 Apr 1895.

⁴ *Commonwealth Debates*, Vol. 165, p. 83.

⁵ £13,470,000 (on behalf of the States) two-thirds converted. £30,000,000 (*Commonwealth, Victoria and Queensland*). *Commonwealth Debates*, Vol 168, p. 565, 25 Sep 1941.

⁶ *Commonwealth Debates*, Vol 168, p. 569.

⁷ The guarantee by which Britain, in July 1942, undertook, "at any time when Australian sterling

THE BRITISH VIEW

Local pressure might succeed in some measure in resisting and allaying restriction of imports, but from England came patient and persistent advocacy of the need for more vigorous restriction and, as well, the need to supplement import restrictions with control of consumption even to the point of rationing. His Majesty's Government in the United Kingdom infused even the measured language of Dominions Office cables with an unmistakable note of urgency, an urgency which could be more roundly reported by the High Commissioner himself in his more intimate messages.

The place of Great Britain had been paramount from the beginning of pre-war discussions, and this was recognised by the Australian administration. Proposals for licensing or prohibiting imports and for rationing petrol, and difficulties in getting goods from non-sterling countries, which were not available from the United Kingdom, all arose from United Kingdom policy and requests for Australian compliance therewith. Australia had never been able to provide from her own exports all the dollars needed for non-sterling imports and the deficit had been made good from the Empire pool. A general idea of the position of dollar imports can be obtained from the accompanying table. Certain commodities had special significance as a drain on dollar resources, particularly tobacco, newsprint and petrol. Great Britain had introduced almost immediately a thirty per cent reduction in petrol consumption, made practicable by consumer rationing, but corresponding Australian action was delayed.

While appreciation of Great Britain's position was not wanting within the Australian administration, there was no blind acquiescence in the policy urged from England. There had to be examination of its impact on the local situation and decisions had to be taken on local problems. It was suggested that Great Britain might be "unaware of the effects" of its policy "on employment in Australia and of any circumstances peculiar to Australia". Great Britain's policy was not solely a question of acquiring enough dollars but could be expected to be influenced by "wider reasons of war policy".

There was, however, general acceptance of the principle of restricting non-sterling imports. The cut of £3,500,000 sterling and restriction of other imports to the level of 1938-39 was seen as a beginning, and by February 1940 it was possible for the British administration to review the Australian measures with a clear indication that they were not regarded, in London, as drastic. It was emphasised that there was involved a drain on the general pool of exchange, to which Australia contributed less than she received, and there was a warning that restrictions on imports which were not reinforced by reduction in consumption could only lead to inflated prices. A British cable of 26th February pointed out that Australian plans covered an estimated cut in non-sterling imports of seven per cent, equivalent to only three per cent of total imports, whereas

balances fell below £40,000,000, to make up the deficiency by advances", will be discussed in the second volume. In fact, the low point of international reserves (in terms of annual figures) was £69,100,000 Australian in June 1942.

AUSTRALIAN IMPORTS: COUNTRIES OF ORIGIN

(Excluding gold bullion, &c.)

£ sterling—millions

	1934-35		1935-36		1936-37		1937-38		1938-39		1939-40		1940-41		1941-42	
	£	%	£	%	£	%	£	%	£	%	£	%	£	%	£	%
United Kingdom	30.79	43.62	33.83	41.50	38.56	43.55	46.23	42.32	40.42	41.64	43.93	38.87	49.40	46.44	56.47	38.43
Other Empire countries	6.73	9.52	7.78	9.53	8.49	9.60	9.40	8.60	9.69	9.98	13.79	12.20	7.63	15.21	8.78	14.33
Canada	4.09	5.80	5.38	6.60	6.07	6.85	8.04	7.37	7.72	7.96	9.10	8.05	16.18	7.17	21.06	5.97
United States of America	11.04	15.64	13.90	17.05	12.96	14.64	17.76	16.26	14.65	15.09	20.12	17.80	17.39	16.35	44.79	30.48
Other Foreign countries	17.92	25.42	20.66	25.32	22.45	25.36	27.79	25.45	24.59	25.33	26.09	23.08	15.76	14.83	15.84	10.79
Total	70.57		81.55		88.53		109.22		97.07		113.03		106.37		146.94	

Source: *Commonwealth Year Book*

the United Kingdom could point to a reduction in non-sterling imports of fifteen per cent, equal to ten per cent of total imports, and these were to be extended. Moreover, commodity controls in the United Kingdom covered 18 per cent of the field. By contrast, in Australia motor-cars were not restricted at all, nor had any attempt been made to reduce consumption of motor spirit. Both were necessary and no good purpose could be served by restricting one without the other. Silks, velvets, laces, toys and other semi-luxury goods appeared to be untouched. The United Kingdom had reduced newsprint imports by nearly fifty per cent while Australia was still discussing restriction. Moreover it appeared to be the practice (a dangerous one) to allow importers to include in their non-sterling quotas goods which they were now unable, because of the war, to obtain from the United Kingdom. There could be detected in the British view concern that while British exporters were excluded by the war from Dominion markets, neutrals were reaping a harvest which could well mean a permanent British loss of markets; and an equal concern at the failure of Australia to prevent or control the development of local industries to replace imports, which was seen as an equal threat to British markets. But the British Government had a good case.

The Australian Cabinet did do something about further restriction of imports from the non-sterling area, and after some hesitation approved reductions of about £1,800,000 sterling on 28th March. In the case of newsprint, however, action was postponed, as it was with petrol. A scheme for petrol rationing had been prepared before the war but the Government had decided that it was not needed, such restrictions as were applied being confined to prohibiting in November 1939 the import of super-grade spirit, supplemented by a policy of taxation and price increases. At the time the Minister for Supply reported that non-sterling funds needed for petrol were £6,000,000 a year in excess of the pre-war total of £10,000,000, and that no reduction to the pre-war figure was possible; but that the increase in dollar and other non-sterling currency on this account should not exceed fifty per cent. Some restriction on motor-car imports was agreed upon, but with considerable trouble over quotas, and difficulty in allaying suspicion of British interests about the designs of importers of American vehicles. It must be remembered that defence needs were all outside the general import quotas, the Department of Trade and Customs strenuously resisting on the Seaborne Trade Committee any proposal for including defence in the general quotas; this at least would provide a stimulus to the continuance of high amounts of non-sterling currency for cars and other vehicles.

There was at first some confusion over the definition of non-sterling, and not all this confusion was due to the Australian administration. In particular, a request to the British Government for clarification produced no very definite or illuminating answers as to the meaning of "non-sterling". In any event, the ramifications of international trade in oil made the definition of currency for petrol extremely complex. For instance Australia had been under the impression that the Netherlands Indies might be

regarded as a sterling source, but this was not so. Moreover the suggestion from Canberra that oil companies be persuaded to accept payment in sterling or even in Australian currency (that is, in effect, from blocked funds) was opposed to general financial policy which aimed at avoiding an accumulation of indebtedness which might be embarrassing in the post-war period.

By May 1940 the inclusion of sterling supplies in the restriction of imports was being canvassed again. It had been discussed and rejected at the beginning of the licensing plan, but now, when some degree of prohibition was applying to non-essentials from non-sterling areas, it seemed that the time had come to restrict such goods from the sterling area rather than to extend restrictions to more essential items from non-sterling countries. There were, it is true, other influences at work: aggrieved importers of non-sterling goods resented what appeared to be discrimination in favour of competitors; Britain herself had discriminated to the apparent disadvantage of Australia in choosing her sources of supply; the need to conserve shipping was greater; there were problems, soluble, as matters were, only by arbitrary decisions, about products from the sterling area which had originated, or the materials of which had originated, in non-sterling countries; and there was still unsolved the issue of payment in blocked funds. In June, however, the Cabinet refused to entertain restriction of sterling imports, and would agree only that the matter be discussed with representatives of the United Kingdom.

SOME PROBLEMS IN THE APPLICATION OF LICENSING

The general principles of import restriction were guided by the need to conserve exchange, but within the narrower limits of administrative procedure there were modifications in relation to individual countries, which arose from special features of a particular trade, or from Australian participation in the wider economic strategy of Britain, or from the impact of war. Thus in April 1940 it was agreed to modify restrictions for certain Chinese products, handworked fabrics and napery being removed from category D (that is prohibited imports) so that seventy-five per cent of the base year value could be imported. The arguments in support were the position of Chinese traders in Australia, and the general question of trade relations with China in the light of the situation in the Pacific.

In the same month negotiations with French representatives led to imports from France being treated in the same manner as those from sterling countries, whereas previously they had been subject to all the restrictions of non-sterling. In this change Australia was following closely on the agreement between France and Britain, to release all trade from restrictions, but since relations with metropolitan France were severed on 24th July, the new arrangements had little time to take effect and were chiefly of importance in political relations with parts of the French Empire.

From the Australian point of view the proposals put forward by Japan after the imposition of import licensing raised greater difficulties. The

complexity of Australia-Japan relations in 1940 are discussed elsewhere in this history,⁸ and this wider political significance influenced day-to-day administration, for example in relation to Japan's request that Australia exempt Japan's cotton and rayon textiles from control and grant the right to supply 51½ million square yards of cotton and an equal amount of rayon. This amounted to a demand for preference to Japan, as compared with other non-sterling countries, and would have justified similar requests from them. Australian experience of Japanese export control had not been happy and precise undertakings given by that country had not been observed. On the other hand Japan was still a market for Australian wheat and flour, and the Department of Trade and Customs was still without assurances that Great Britain could supply the needed textiles. The Cabinet in June sought a compromise by formally reiterating the existing policy, that is restricting imports to the value of 1938-39; but by directing that defence requirements be excluded from the quota this was made, in effect, a concession to Japan.

In July Britain and Holland reached an agreement which linked the guilder with sterling and consequentially the Australian Cabinet determined that imports from the Netherlands Indies should be treated as from the sterling area, with the important exception that petrol, which was subject to control irrespective of country of origin, should continue to require a certificate from the Department of Supply and Development as in all other cases.

Apart from these relatively simple problems, arising from relations with particular countries, most of the difficulties in administering import control had been experienced in connection with special types of payment. Cabinet discussion in October 1939 pointed out that "there is certain to be a conflict between exchange for imports on the one hand and exchange for payment of dividends, motion picture royalties, etc. on the other. It would be difficult politically and economically to justify the position where foreign exchange was refused for imports which were required to maintain employment, whilst at the same time granting exchange to pay", for example dividends due to overseas shareholders.⁹ The Commonwealth Bank was disinclined to take decisions about the motion picture industry, pleading that it did not possess the specialist knowledge required, and consequentially the matter was referred to the Seaborne Trade Committee early in 1940. The Director of Economic Coordination, Sir Ernest Fisk,¹ then its chairman, adopted the technique of negotiation which was characteristically the procedure by which the Government handled the issue. The recently concluded agreement between the British Government and the industry in England provided a precedent, and the Australian Economic Cabinet in April 1940 approved of alternatives for discussion with the interests concerned: remittance of 50 per cent in dollars with retention of the other 50 per cent in Australia; or a division of 60 per cent remitted and 40 per

⁸ See P. Hasluck, *The Government and the People 1939-41*.

⁹ Full Cabinet Agendum 208.

¹ Sir Ernest Fisk. Mg Dir Amalgamated Wireless (A/sia) Ltd 1917-32, Chrmn of Brd 1932-44; Dir of Econ Coordn 1939-41. B. Sunbury-on-Thames, Eng, 8 Aug 1886.

cent retained. The agreement reached was for the fifty-fifty division with a maximum limit of \$3,100,000 a year on amounts to be remitted, which was in fact about half the actual remittances for 1938-39. Policing of the agreement was provided by requiring Treasury consent for remittances, and there was the obvious safeguard of a provision that film rentals must not be increased. In return the industry secured a remarkable guarantee, later to be the occasion for criticism, that any legislation which could be regarded as discriminating against the industry as compared with any other, should be regarded as terminating the agreement.

In May 1940 the Commonwealth Bank raised another issue when it asked the Government to determine policy in relation to the remittance of profits by subsidiaries in Australia to their parent companies in non-sterling areas. This involved long-term considerations of American investment in Australia as well as possible diplomatic difficulties with foreign countries. Nevertheless there was unavoidable need to prevent what might appear as preferential treatment for any section of the economy, or, particularly, for any foreign interest. The Treasurer put to the Economic Cabinet on 10th May two alternatives: either limitation to a percentage of an approved capital figure, or limitation to a percentage of previous remittances, any amounts retained in Australia being subject to investment at Commonwealth Bank direction. By this time, however, the Economic Cabinet was being discarded and the proposal drifted to the Full Cabinet which did no more than remit it to the Seaborne Trade Committee for Fisk to "negotiate". The restriction would have to follow clearly defined principles, but a wide variety of enterprise was involved, ranging from oil companies to manufacturers of breakfast foods, soap and confectionery, and advertising agencies. Added to that was an even more varied complexity in capital structure and accounting procedure, coupled with considerable resistance to the disclosure of information without which a decision was impossible. The Director of Economic Coordination produced a lengthy assessment emphasising the complexity, but arriving at a general principle that remittances should be permitted up to a percentage of assets, or a percentage of total expenditure in Australia incurred in earning the relevant profit, his purpose being more or less equal treatment for companies with high and low profit rates. The Treasurer put the view to the Cabinet that "this is a case which can be best dealt with by trial" and on this basis the proposal was adopted. It fell to the Commonwealth Bank to administer it, and the Bank found repeated need for the clause that special cases were to be investigated at the discretion of the Treasurer. However, twelve months' saving of about twelve per cent in exchange used for remittances was achieved, but as ninety-one per cent of this saving arose from remittances by eight companies only, it was clear that approval was given generously, and that in the majority of cases the full amount that companies desired to remit was permitted. In the second year of war restrictions were more stringent not so much because they represented special attention to remittances, as because by then every demand on foreign exchange had to be scrutinised closely.

GENERAL REVIEW TO JUNE 1940

It is clear that up to mid-1940 the restrictions on non-sterling were not onerous. The Commonwealth Bank, which had at least achieved the introduction of successful control measures in its own field, made no secret of its dissatisfaction with the rigour with which import licensing was applied. Sterling imports continued to use exchange without restriction, and non-sterling imports continued at a greatly inflated rate. The Bank and the Treasury reiterated the need for more severe restrictions.

After three months of war the main provisions for a system of foreign exchange control were complete, although it was typical of Australian planning that measures, the necessity for which had been foreseen and the main lines of which had been planned before war began, were introduced piecemeal over a period of three months. Despite the prior planning there were deficiencies in the regulations; for instance, provision had been made to exempt holdings of gold for industrial or professional purposes but not to permit new purchases.² Not until December were the Treasurer's powers delegated to Bank officers when it was realised by experience how many questions of detail were involved in administration.

The legal position was that the Commonwealth Bank held a complete monopoly of foreign exchange. It was entitled to claim all foreign currency assets of Australian residents whether in gold, currency, deposits, securities or any other form except goods. It had power to direct the stream of current overseas receipts into this pool, to receive all local gold stocks and local gold production, and it had authority to determine the rate and direction of the outflow of payment for imports and other remittances.³

The conception of purpose behind the control as first introduced was also fairly clear, even though adjustments to day-to-day problems almost immediately began to blur the outline. In the forefront was fear of a flight of capital to neutral territory; close behind came the desire to ensure control over fixed exchange rates by monopolising the supply of foreign funds and controlling demands on the pool; only in relation to non-sterling currencies was there any evidence of doubts as to the adequacy of available foreign currency.

At the end of May international events took a hand in the shaping of policy, and not only was the supply of shipping threatened, but the need to increase stocks to cope with possible emergency made it imperative to restrict in order to save funds, and to divide in order to ensure priority.

THE IMPACT OF JUNE 1940

The continental disasters of May and June affected Australia profoundly. Recruiting reached record high levels and there was widespread and vigorous, if undirected and uncoordinated, desire on the part of the public

² Statutory Rules 1939, No. 181 22 Dec.

³ Technically some of the decisions for which authority was given were the prerogative of the Treasurer but general and specific delegations of authority to officers of the Bank made these legal niceties irrelevant for the present purpose. More important was the fact that export and import control in particular had more purposes than exchange control, and the manner of exercise of the Bank's powers was conditioned by cooperation with other authorities; this point is taken up at appropriate places elsewhere.

to do something useful. The turn of events had weakened, as never before, the traditional role of Britain as guardian, and self-preservation became a factor in the policy of the Australian administration. In the field of foreign exchange, the British had, with reason, criticised Australian policy as weak.

Up to May 1940 Great Britain had succeeded in paying cash for non-sterling imports, but now the British Prime Minister, Mr Churchill, in his message to the American President declared that "it will be utterly impossible for [us] to do this for any indefinite period".⁴ Back in February Britain had pointedly commented upon Australian measures to conserve exchange as inadequate. The question why the Australian public had not been asked to accept any major change in their daily life could only be answered by analysis of the tangled politics of the day, but within the administration the uncompromising demands of the dollar position could not be dismissed. As from 1st July a schedule of further import restrictions representing £2,400,000 sterling was approved; the Government found itself pushed into the completion of plans and negotiations about newsprint, motor vehicles and petrol, already too long delayed, and into the exploration of new measures to reduce dollar expenditure.

Imports of newsprint had in preceding years accounted for around £5,000,000 sterling of overseas currency.

	£ sterling
1935-36 . . .	5,295,820
1936-37 . . .	5,933,131
1937-38 . . .	6,609,609
1938-39 . . .	6,185,576
1939-40 . . .	7,242,402
1940-41 . . .	5,796,741
1941-42 . . .	3,804,193

Source: *Commonwealth Year Books* (Class XVI, Paper and Stationery)

Newsprint with other non-sterling imports had been subject to licensing from December but special problems prevented application of the simple principle of admitting a percentage of the base year value. During that base year some 30,000 tons had been imported from the United Kingdom, but supply from this source was now uncertain and cost £6 a ton more than the Canadian product. It appeared unfair to require importers to continue to obtain supplies from Britain. On the other hand, to give licences for substitute imports from Canada threatened a substantial rise in the demand for dollars. Nevertheless the latter solution was adopted by amalgamating sterling and non-sterling quotas from January 1940. When, a little later, British supplies increased, the United Kingdom sought reversal of this policy. The argument revolved around the non-sterling currency involved in British import of pulp to make newsprint for Australia; the higher cost to Australian importers; the additional transport risk; and the higher price. While it continued, Scandinavian supplies of material to

⁴ W. K. Hancock and M. M. Gowing, *British War Economy* (1949), p. 119.

Britain were cut off, and the United Kingdom supplies for export disappeared.

So far Australian newsprint importers were suffering no reduction other than that imposed by the rise in price, the effect of which was to permit import of about three-quarters of the base year quantity, modified by difficulties of supply. The Department of Trade and Customs had circularised newspaper proprietors early in 1940, stressing the need for reductions, but the contrast with Britain, where newsprint consumption had been curtailed immediately war began, was striking. In March the Minister for Supply and Development proposed conferring with newspaper proprietors to evolve a scheme of reduction. In practice import licensing permitted 133,000 tons, about 40,000 tons less than pre-war, but existing stocks had so far enabled newspapers to continue production with no appreciable reduction in consumption.

Any scheme necessitated rationing, and a sliding scale, ranging from 16½ per cent to 35 per cent reduction, according to the size of the newspaper, was accepted by the Cabinet in May after the urgency had been stressed. Even so the scheme did not operate until the beginning of July, and produced over the next twelve months a reduction in imports to 116,100 tons. The existence of stocks necessitated distinguishing between import and consumption, for each of which separate quarterly allocations were determined. Circulation of papers was taken into account in adjusting the individual allocations to the general scale, and it would appear that there was no important reduction in circulation.

In March 1940 motor vehicle quotas were reduced by 40 per cent of 1936 figures for cars and by 12½ per cent for trucks. The point of using 1936 figures in this instance was that under the "trade diversion" policy of that year, aimed at increasing British preference, imports of motor vehicle chassis from Canada or the United States of America had been restricted to the number imported during the year ended April 1936. The trade sought a smaller reduction, and the view that petrol rationing, if it were introduced, would also curtail the trade was advanced in support. In the event, however, the Cabinet endorsed the Minister for Trade and Customs' view that "some saving in non-sterling exchange should be made by reducing motor chassis quite irrespective of whether petrol rationing is adopted or not".⁵

This did not end the matter since there had to be some review of the sources covered by the quota, following representations by competing American interests. The Director of Economic Coordination, with the aid of the Tariff Board (acting in its new capacity as Advisory and Consultative Committee) produced a report recommending that Canadian and United States quotas should be combined into a single "North American" quota, to take care of those companies whose opening of manufacture in Canada had produced a price differential which made wartime arrangements inequitable against United States manufacture. The "North American" formula was designed to obviate grounds for complaint by the

⁵ Full Cabinet Agendum 311, 21 Mar 1940.

United States which might have arisen under any open preference to American cars produced in Canada.

Defence quotas were outside these reduced numbers for the civilian market so that the overall reduction did not correspond with the civilian reduction. Nevertheless the lower nominal imports did provide an argument used against reduced petrol consumption.

Pre-war imports of oil fuels had been:

Crude Petroleum				£ sterling
1935-36	.	.	.	539,693
1936-37	.	.	.	520,517
1937-38	.	.	.	603,216
1938-39	.	.	.	448,880
Petroleum Spirit etc.				£ sterling
1935-36	.	.	.	3,792,950
1936-37	.	.	.	4,525,939
1937-38	.	.	.	5,503,085
1938-39	.	.	.	5,209,650
Kerosene, Lubricating and Residual Oils				£ sterling
1935-36	.	.	.	1,718,387
1936-37	.	.	.	1,904,568
1937-38	.	.	.	2,592,925
1938-39	.	.	.	2,372,434

Source: *Commonwealth Year Book* No. 33.

(These figures include imports for defence purposes.)

The authority on petrol was the Department of Supply, to which the Commonwealth Oil Board was attached, and it was as chairman of this body that Mr Brigden⁶ reported on demands for non-sterling exchange for motor spirit in October 1939. A plan for rationing for use "in the event of need" had been before the Cabinet since 4th September and Brigden's report therefore dealt with import and exchange. The need for restriction, it was pointed out, arose from United Kingdom policy. Australian petrol supplies, including those from the Netherlands Indies, were almost all from non-sterling sources and the rate of import had reached £13,000,000 Australian a year. There was difficulty in identifying the currency which was ultimately involved in payment for petrol. Attempts to secure guidance from Britain had produced the assurance that "the most useful measure which can be adopted therefore to combat exchange difficulties is to reduce consumption by strict internal rationing".⁷ This problem of rationing was discussed on 19th October but deferred while negotiations were undertaken with the oil companies to see if they were

⁶ J. B. Brigden. (1st AIF: 29 Bn.) Prof of Economics, Univ of Tas 1924-29; Dir, Old Bureau of Economics, later of Industry and State Statistician 1930-38; Sec Dept of Supply and Development 1939-41 and of Dept Munitions 1940-41; Econ Counsellor to Aust Min in Washington 1942-47. B. Maldon, Vic, 20 Jul 1887. Died 12 Oct 1950.

⁷ Full Cabinet Agendum 207, 18 Oct 1939.

willing to accept payment in blocked Australian currency or blocked sterling, and on 31st October the Cabinet sub-committee "contrary to the advice of the Commonwealth Oil Board reported that petrol rationing should be deferred".⁸ It was argued that the time was inopportune because of possible unemployment; that it was only a first step and not a particularly effective one; and any rationing might have an adverse effect on industrial activity.

Since July 1939, by arrangement with the Government, the oil companies had maintained stocks equal to three months' consumption at pre-war rates, but a complication was introduced by lack of storage space; if consumption were curtailed there would be difficulty in finding storage. Nevertheless the simple arithmetic of non-sterling exchange might easily compel introduction of rationing automatically, and even if the Government were not prepared to introduce it, some measure or other had to be taken to reduce consumption. The policy adopted involved increase in price and the prohibition of the import of super-grade spirit.⁹ Other suggestions included prohibition of Sunday and holiday sales. How the storage problem was overcome is discussed in a later chapter, but a real restriction of consumption was far more difficult to achieve.

During the first months of 1940 the Government was still struggling with tangled negotiations which were beset on the one hand by conflicting estimates of dollar resources available, and on the other by systematic and vigorous propaganda which carried to the limit forecasts of turmoil and disruption to industry and the war effort which would follow any rationing of petrol to consumers. Illustrative of the situation was the conference late in April 1940 held by the Director of Economic Coordination (the Economic Cabinet had been drawn in early in April). In opening the conference the Prime Minister stressed Australia's dependence upon the Empire pool of foreign exchange, proposed a fifty per cent cut as the objective, and, while admitting that restriction might curtail industry, suggested that all practical methods of restricting consumption should be brought gradually into operation to minimise these effects. The conference, it was reported to the Cabinet, "appeared to be unanimous in opposition to any scheme of rationing" and was "widely unfavourable towards any flat rate of taxation". It suggested the alternative approach of voluntary restriction, and pointed to a need to economise in government services. Its recommendations included "continued appeal to the public", and an "educative campaign"; economies in government consumption; the control of vehicle speeds to economise petrol use; and the use of petrol substitutes.¹

Unfortunately for Fisk, by the time he reported these results to the Cabinet on 6th May, it had already, without his knowledge, determined

⁸ Full Cabinet Minute 207, 31 Oct 1939.

⁹ Full Cabinet Minute 207, 6 Dec 1939. Sales of "super-grade" petrol ceased from 3 May 1940. Petrol prices rose as follows: 18 Sep 1939 1d gallon, 31 Oct 1d gallon, 6 Mar 1940 1d gallon, 9 May 3d gallon, bringing the ordinary grade to 2s 3d gallon. There were varying increases in the price of oils. The next increase in petrol, 1d gallon, was on 21 Mar 1941.

¹ Economic Cabinet Agendum 47/40.

to impose an increased tax of 3d a gallon, to his consequent embarrassment. It was likely that members of the industry would regard this as the Government's decision about the recommendations of the conference. In fact, the decision represented a hardening of attitude to the whole question of petrol in relation to non-sterling exchange. A week later the Cabinet decided that it must enforce a cut in petrol consumption of one-third although there was some difference of opinion as to whether this might be avoided by other economies in non-sterling imports; the Treasurer in June had to tell the Cabinet that "it is necessary to make the cut irrespective of the currency in which payments are finally made".²

The Minister for Supply to whom fell the ungrateful task of negotiation carried this view to representatives of the industry who still, however, persisted with alternative schemes, one being further restriction on motor vehicle import. There matters rested when the Minister reported to the Cabinet on 6th June, by which time the collapse of France had made the issue one not merely of foreign exchange but continuity of supply. The decision was at last taken that rationing should be introduced in eight weeks, although, in fact, effective consumer rationing was delayed until October.

One other drain on non-sterling exchange deserves mention, namely tobacco. In this case a real saving in dollars occurred, but the problem did not present the same difficulty since there was substantial imported leaf in stock, and there was some relief from locally produced supplies.

As part of the Government's reaction to the events overseas of June 1940 there had been a directive to the Minister for Supply from the War Cabinet concerning emergency stocks of strategic materials. These had been the concern of the Department of Supply in pre-war planning, but had fallen into the background because, in the light of events, they did not assume any importance. In his report the Minister did not cover "defence supplies of factory equipment, chemicals etc." but covered the needs of civil industry (subject always to requisitioning for defence purposes). Raw cotton was one of the essential goods which involved non-sterling exchange; petrol was another. In general the Cabinet approved the principle that the Minister for Supply be authorised "to take action immediately on behalf of the Government to get the quantities . . . into the Commonwealth by the best methods available", and that, with the Treasurer he should "conclude appropriate business and control arrangements to that end".³ The Minister's separate report on petrol, beginning with the assumption of a one-third cut by means of rationing, went on to such supply problems as conservation and storage. The emphasis had moved from non-sterling exchange to physical resources, although exchange would continue to be a potent argument for restriction.

² Full Cabinet Agendum 322, 6 Jun 1940.

³ Full Cabinet Minute 383, 17 Jun 1940.

OTHER CONTROLS ON EXTERNAL TRADE

As part of the War Book comparatively elaborate plans had been completed for a Committee of Economic Warfare. This did in fact meet, but only once, and thereafter existed only in name, the secretariat from the Department of Trade and Customs receiving the regular *aide-mémoires* from the British department and administering the ships' black list, navicerts and ships' warrants. Within the Department of Trade and Customs itself, various controls on shipping movements and the movement of goods functioned immediately and smoothly since they were part of the traditional machinery of trade control in time of war, about which not only was the legal position clear but administrators existed who had had personal experience of handling such matters. Of these matters, trading with the enemy was of chief importance.

The adaptation of international trade to aggressive purposes as an instrument of economic warfare was being worked out by all the belligerents throughout the war, but the prevention of trade with the enemy had always been so obviously necessary that it was forbidden by British common law. Consequently, without waiting for an Act then being drafted, the Government issued a "warning to traders" immediately, drawing attention to this legal position and enumerating the more common transactions which had become unlawful, stressing that completion of pre-war contracts was among these, except that receipt from enemy sources of payments of this sort was permitted.⁴ The issue of licences of exemption was foreshadowed.

The language of the warning derived from the Act of 1914 on the model of which a few days later a *Trading with the Enemy Act* was passed with scarcely any debate.⁵ The Act comprehensively prohibited trade of any sort with or for the benefit of residents of enemy territory or persons and businesses defined as enemy subjects, but with provision for licences of exemption. A controller might be appointed for businesses which offended, for enemy businesses in Australian territory, or for any business deemed essential, the operation of which in Australian territory might be hampered by war. Anyone owing money to an enemy subject was required to pay it to the Comptroller-General of Customs.

The most difficult problems under the Act naturally arose in connection with such trade with neutral countries as was in fact disguised trade with the enemy. For this purpose the device of the "black list" developed in 1914-18 was employed early. By proclamation under the Act the Attorney-General was given power to publish lists of Australian residents who were, or had been, enemy subjects; of persons resident anywhere who were acting in the interests of the enemy; and of firms and corporations, wherever located, which were "in his opinion managed or controlled, directly or indirectly, by or under the influence of, or carried on wholly

⁴ *Commonwealth Gazette* 6 Sep 1939.

⁵ No. 14 of 1939, 9 Sep 1939. Because of the common law position, it and the minor amending Act, 33 of 1940, 3 Jun 1940, were retrospective to the outbreak of war. Clauses found necessary in 1916 were omitted, but otherwise the Act was based on that of 1914. *Commonwealth Debates*, Vol 161: (Hughes) 7 Sep 1939, p. 138; (Collett) 8 Sep 1939, p. 254.

or mainly for the benefit of or on behalf of persons of enemy nationality or resident or carrying on business in enemy territory". The appearance of a name in such a list meant a prohibition of all trade with such a person or business.⁶

The first black list appeared immediately afterwards, containing names mainly from Iran, Switzerland, Baltic countries, Central and South America, Rumania, Greece, Spanish Morocco and Japan. Amending lists appeared from time to time. Thus a list of 12th January 1940 added mainly names from Central and South America and Hungary; one of 10th April 1940 added mainly Chinese addresses. After the collapse of France provision was made for declaring what was, for the purpose, enemy territory,⁷ and declarations of occupied areas followed each advance of the German armies.

The issue of licences of exemption was based on one or other of two general principles. First were cases where exemption resulted in a gain to the Australian economy for war purposes. Second were cases where safeguards ensured that hardship to individuals could be mitigated without any material risk of aiding the enemy.

A number of cases of the first sort arose immediately in connection with cargoes of enemy origin in ships which had taken refuge in neutral ports. For various reasons enemy shipowners were prepared to permit delivery if freight and other charges were paid, but not, naturally, otherwise; in any case the legal rights of Australian owners who contemplated proceedings in the neutral country concerned, required discharge of the debts. For one shipment of goods in a ship of the Hamburg Amerika Line then in the Netherlands, a special licence had to be issued, since bills of lading had gone astray, to permit an Australian bank to give an indemnity to the shipping company if it delivered the goods to the Sydney Chamber of Commerce on behalf of owners and consignees. Other instances were covered by a general licence to pay charges necessary to secure delivery, to which no restrictions were attached until early 1940 when a measure of supervision was enforced by limiting the licence to the Sydney Chamber of Commerce or the Victorian Chamber of Manufacturers who acted as agents for the importers, and by prescribing that charges other than freight should not exceed five per cent of the cargo. A little later the amount of freight payment was limited.⁸

A more complex problem concerned patents, trade marks and copyright. The view was accepted without serious dispute that legal protection

⁶ *Commonwealth Gazette* 20 Nov 1939.

⁷ *Commonwealth Gazette*, 24 Jul 1940.

⁸ *Commonwealth Gazette* 8 Apr 1940. This amendment and an analogous one mentioned in the next paragraph illustrate the difficulty, never fully solved during the war, of bringing together legal drafting skill and business and economic knowledge. The most practicable solution was that departments originating wartime legislation should have their own legal officers to carry out preliminary drafting, to show the technical, business, and economic experts the legal difficulties of this or that form of control, and to convince the Attorney-General's Department that drafting conventions could be adapted to secure the results needed. But this was unacceptable to the Attorney-General's Department, which preferred to make its own officers freely available on *ad hoc* assignments, a procedure which taught a good deal of heterogeneous law to the experts, but had the disadvantage that those legal officers who were themselves new to public service lacked detailed background knowledge of the particular department's work.

to such rights should be maintained even for enemy subjects, provided—as was the case—the enemy reciprocated. Accordingly a general licence was given to pay fees necessary to secure the grant or renewal of a patent or trademark in any enemy country, or, as the Australian agent for an enemy subject, to pay Australian fees to secure similar rights in Australia. As an afterthought, an amendment provided that payments of the latter class must be from enemy balances or new remittances; an agent might not himself lend or give the money.

This was, however, only preliminary makeshift and more comprehensive provisions were soon made by the *Patents, Trademarks, Designs and Copyright (War Powers) Act*.⁹ This restated the provisions of the licence as amended (which was accordingly revoked) but went on to provide that the Attorney-General might, during the war, modify the conditions of enemy-owned rights; might issue licences to use enemy-owned patents, designs etc. even where an Australian held a licence already, perhaps an exclusive one; might prescribe conditions such as those relating to royalties; and might suspend enemy rights in trade marks. Any action under a licence of any sort which amounted to trading with the enemy was, perhaps unnecessarily, declared unlawful.

Other licences under the *Trading with the Enemy Act* permitted the purchase of scientific and educational publications of enemy origin; the payment of general average contributions in respect of an enemy ship taking refuge in a German port when carrying goods, since delivered, from a neutral country to Australia; and the operation of bank accounts for “German interests” by the Swiss consular authorities in Sydney and Melbourne. The local branch of the East Asiatic Company of Denmark was licensed, after the occupation of that country, to operate in the British and French Empires provided no benefit accrued to the enemy or the head office. In May 1941 a special licence envisaged some disguised trade with enemy nationals for it permitted import of equipment from neutral territory provided the Minister for Trade and Customs certified that it was essential and not readily available elsewhere.

The second class of licences, those designed to mitigate personal hardship, covered a number of cases. Payments were authorised for the maintenance of British nationals in enemy territory and of widows who had been British, and parallel payments from enemy sources might be received. Approved communications “not being of a commercial character” might be sent to enemy territory (characteristically not until a year later was the receipt of such authorised), and some licences were concerned with the administration of wills. Immigrants from enemy territory who arrived just before war began had often left household goods to be sent after them; they were permitted to arrange for storage etc. and to pay charges and, later, to import personal and household effects.

The provisions of the Act were also supplemented by the Enemy Property Regulations, which required Australian residents to disclose

⁹ No. 66 of 1939, 15 Dec 1939.

their holding or management of any sort of enemy property.¹ Companies incorporated in Australia or having an Australian register were to notify enemy holdings of shares; firms having enemy subjects as members or creditors for capital advances were to report the facts. A Controller of Enemy Property was appointed to whom all debts, dividends etc. due to enemy subjects, and all balances held on enemy account, were to be paid, payment freeing the debtor, agent or bank of all further liability.

¹ Statutory Rules 1939 No. 102, 27 Sep.

CHAPTER 5

SHIPPING

AMONG the problems of impending war that of shipping took a high place. No one had to be persuaded that it would be a major problem; the conviction of its paramount importance was rooted as much in tradition, prejudice and geographical isolation as in the more immediate investigations of pre-war planners. Australia was an island, even if a large one, and without shipping it was isolated. Education which placed great stress on British history and the Australian link with the motherland, reinforced belief in naval supremacy as a first principle of defence. The great primary industries, despite their declining relative importance, were still key ones in the economy, and claimed a political power which carried over from their earlier dominance. Their markets lay overseas and it was from overseas that a large volume of imports flowed in return. Defence began with the sea and with the protection of shipping. Even the new air force was presented from the first as an aid in keeping the sea lanes open.

Nevertheless Australia owned few ships other than in the coastal trade. She had no oversea service under her own ownership, except the few ships in the island trade. The overwhelming proportion of Australian trade was carried in British ships which, immediately before the war, accounted for three-quarters of the tonnage, the rest coming from Norway, Japan, the United States of America and other foreign powers. Towards the end of the 1914-18 war the Government had acquired a number of ships in an effort to escape some of the restrictions imposed by control of shipping from abroad. After the war it attempted to build these up into a Commonwealth Government shipping line, including some ships built in Australia, the purpose, at least as officially stated, having shifted to a maintenance of reasonable freight rates by competition.¹ This culminated in the sale of the ships in the late 'twenties on the grounds that they were persistently making losses. Conclusion of the transaction was protracted because of depression-created difficulties for the purchasing company, and the episode had not long been finally wound up when the necessity to plan for another war began to promote active discussion and exploration of the war problems of shipping.

There were two spheres of planning: that in England, and the adaptation of Imperial policy within the local administration. So too, there were two influences at work: that of the navy, to whom local Australian shipping was a source of auxiliary vessels, and oversea shipping a vital link to be protected; and that of the export industries, whose special capacity for political and economic pressure has been described. Within Australia the civil administration of shipping generally was placed in the Department of Commerce and although this involved little more than the provision

¹ E. Scott, *Official History of Australia in the War of 1914-18*, Vol XI, pp. 607 et seq. Sale of line reported 632. Scott gives the chief reason for the operation of the line as "a lever for influencing freight and ensuring shipping space".

of navigation services, it is significant that civil shipping administration was handled by the department whose primary purpose was promotion of export sales.

During the inter-war years the English shipping companies had developed machinery for joint action in cooperation with Australian export interests. Early in 1929 when a rise in freights appeared likely, a conference of producers, oversea shippers, and shipowners, resulted in the formation of the Australian Oversea Transport Association aimed at the rationalisation so popular in those years. In conditions of depression no striking positive advantage accrued to the shipowners, but the establishment of an organisation capable of speaking for this section of the industry was to be of importance. Within this association another was formed comprising representatives of all shipping lines trading to the United Kingdom, Europe, Canada, America, New Zealand and the East. This Oversea Shipping Representatives' Association in the early months of the war provided the members for an authority of some importance in the first phase of wartime shipping administration: the Oversea Shipping Committee.

The discussion of export contracts with the Food (Defence Plans) Department in the United Kingdom, after the Imperial Conference of 1937, involved some examination of shipping, but the concern was with shipping as a necessary instrument for executing those contracts, not as a technical problem in itself. There was never any doubt that there might be serious interruption of seaborne trade, but the uncertainties centred on the degree of this interruption. Some estimate of it was essential for the civil side of planning although the basis for any estimate seems to have been the work of the navy. In January 1939 the Australian Navy thought dislocation would be "complete", a statement which caused the British Food (Defence Plans) Department some concern since, if the gloomy forecast were realised, it would demand alteration of the basis of their own planning. An exchange of views by cable produced the adoption of a figure provided by the British Board of Trade of a reduction of shipping to 60 per cent in the first two months. But in these discussions any such estimate was considered only in relation to its effect on Australian exports.² Whether after this initial period of dislocation ships could be found to fill the gap, whether Australia could or would charter or requisition, does not seem to have been discussed. Instead the export planners devoted their attention to the effect of the estimated reduction in tonnage on exports.

The core of the oversea shipping problem was the fact that the wartime disposal of ships would be at the discretion of the British Government and that Australia's problem was to discover the procedure for the allocation of shipping to the Australian trade; partly so that she might make representations about the size of her allocation, partly so that she might plan the best use of what she got. Such allocation procedure was not, in fact, worked out at this stage. The information on which Australian

² The use of estimates from roughly similar sources had occurred in import plans, described in the previous chapter. Different dates, and revisions in the light of continuous discussions, account for differences in the figures.

oversea plans could be based was still inconclusive and rested upon decisions still to be taken 10,000 miles away, where also lay the ownership of most of the vessels to be used. Australian planners might confer with Australian representatives of British lines but control of the ships was in the United Kingdom and the cooperation of the London representatives of the shipowners was essential. The absence of a Commonwealth shipping representative in London had already been felt.

Within Australia, however, more precise planning could go ahead without waiting for these wider questions, insofar as it was concerned with locally owned ships and oversea ships while in local waters. In chapter ten of the War Book, devoted to shipping, a fairly precise statement of the forms of control then considered necessary was set out:

1. control of the employment of ships on the Australian Register to ensure their utilisation to the best advantage after the requisitioning of ships by the Navy Department;
2. control of the movements of ships, Australian and oversea, in harbour and at sea, to ensure their safe arrival at their destination or next port of call;
3. control of wireless in ships.

Control of movements and control of wireless were naturally seen as the responsibility of the navy. The first item, control of the use of local ships, was partly a reflection of the feeder role of Australian coastal shipping in the 1914-18 war when, as part of the technique of economising oversea shipping, a single port of discharge was adopted for oversea ships, and the Australian transport system, either land or sea, took over local distribution.

Until more finality was reached in London, Australian plans for the use of oversea shipping could proceed only tentatively on the basis of various assumptions. By contrast, as early as March 1938 the Australian Naval Staff had produced a review of local shipping which not only set out definite demands on local services for discussion, but pointed to the problems which shipping authorities would need to explore. The theme of the review was the requisitioning of ships which would be necessary to augment the navy in the event of war.

Basic figures were:

Ships registered in Australia . . .	230
A. suitable for commerce . . .	174
B. trawlers or administrative . . .	56
Required by Navy . . .	109
of which 78 would be ex A.	
Interstate commercial carriers . . .	98
of which Navy would require . . .	27
Intrastate commercial carriers . . .	101
of which Navy would require . . .	48
Large passenger ships . . .	13
of which Navy would require . . .	6
Smaller passenger ships . . .	8
of which Navy would require . . .	3
Large interstate general cargo ships . . .	44
of which Navy would require . . .	4
Large interstate ore ships . . .	11
of which Navy would require . . .	1

The navy did not pretend that such requisitioning would have no serious consequences for the Australian coastal trade, and it emphasised that the railway system, with its differential gauges and single tracks over many important sections, would not be able to carry much of the traffic handled in peace by the ships to be requisitioned. On the other hand they pointed out that the navy contemplated only a small demand on large interstate cargo and ore ships and that the relevant sections of the *Navigation Act* could be suspended so that oversea ships calling at more than one port might be used to supplement the remaining coastal transport.

The navy was perhaps somewhat optimistic in its assessment. Coastal shipping was of very great importance in the distribution of goods for a number of reasons. A high proportion of the population was distributed along the east and south-east coast of Australia and the existence of a number of small harbours had led to the development of shipping services, supplementing or substituting for land transport. In particular there were a number of important cargoes for which sea transport was more important than land. Black coal, for example, then almost wholly from New South Wales, was essential for railway transport and gas production in Victoria, South Australia and Tasmania, and was moved by sea. Iron ore from South Australia was moved to Newcastle in specially constructed ships, as was sugar from Queensland. The Queensland railways system had been developed on the assumption that traffic would be very largely through a number of coastal ports, while Tasmania, of course, was heavily dependent upon sea connection with the mainland. The navy's forecast of requisitioning recognised these problems to some extent, in that it proposed to leave the coal and ore trades practically unaffected, but the reduction in the total shipping available was still a major problem. Available figures do not lend themselves to a direct comparison of coastal shipping and railway traffic, but the rough order of magnitude can be indicated. In 1938-39 interstate cargoes totalled 7,220,000 tons weight, which takes no account of the very considerable movement of goods between ports within the same State. Tonnage of goods and livestock carried by the railways in the same year, over the whole of Australia, totalled 33,160,000 tons, and of this a great deal was the movement of primary products from the interior to ports. Any substantial reduction in shipping tonnage available would throw on to the coastal railways a burden which, in relation to their normal traffic, would be serious.

In another sense any cut in coastal shipping would be serious. A number of key cargoes were handled by procedures which assumed a close relationship in time between production and the availability of shipping, and if curtailment of shipping increased the interval between ships, or introduced fluctuating delays, production would be immediately affected. Among the cargoes concerned were coal, particularly from the Maitland field in New South Wales which was linked by a short rail haul to Newcastle. If colliers were not available the special trucks would soon all be full and production would cease. Similarly the timber trade from the north

coast of New South Wales presumed a regular flow of shipping, as did the sugar trade in Queensland.

In the navy's requisitioning programme were definite and precise demands, and clearly the question was how best to minimise their effect. Reports under five headings were called for in March 1939 to cover:

- Interstate trade (from the Department of Commerce, Oversea Shipping Representatives' Association and Australasian Steamship Owners' Federation);
- Fish supplies (from the Council for Scientific and Industrial Research) in view of the requisitioning of trawlers;
- Lighthouse services (from the Department of Commerce) in view of the requisitioning of lighthouse tenders;
- Rail transport of refrigerated goods (from the Department of Commerce, North Coast Steam Navigation Company Limited, Newcastle and Hunter River Steamship Company Limited, Illawarra and South Coast Steam Navigation Company Limited, and the New South Wales Railways);
- North-west coast trade in Western Australia (from the District Naval Officer and local authorities).

Over a considerable part of the field these reports provided a good deal of information. Thus the first on interstate cargoes estimated that seven steamship lines carried approximately 5,730,000 tons annually classified as follows:—

General cargo	2,335,000 tons
Coal, coke and ore . . .	1,870,000
Ironstone and limestone .	1,000,000
Raw sugar	300,000
Gypsum	100,000
Lead	60,000
Timber	65,000

But the reports did not cover the whole field. They omitted refrigerated cargo and the more important cargo for the Tasmanian run, as well as certain interstate coal and bulk cargoes and the Queensland trade of Burns Philp and Company Limited and the Colonial Sugar Refining Company.

The next step was promoted by the continuing exchanges between the Department of Commerce and the British Food (Defence Plans) Department, and was concerned with what sort of control procedure should be imposed, and by whom. A Shipping Control Board was envisaged, but on 4th May 1939 the formation of a Shipping Advisory Committee, as a preliminary measure, was reported to the High Commissioner in London. The Assistant Minister for Commerce, Senator McBride,³ as chairman, gave the committee four items to consider:

1. The method of control of shipping and the nature of the organisation to be set up in the event of war to ensure
 - (a) that each branch of the shipping industry should function efficiently, and
 - (b) that the links between the branches should be such that there would be no gaps or lack of coordination and no overlapping.

* Hon Sir Philip McBride, KCMG. MHR 1931-37 and since 1946; Senator 1937-44; Asst Min for Commerce 1939-40; Min for Supply and Develop and Min for Munitions 1940-41; Min for the Army 1940; Min for the Interior 1949-50; Min for Defence since 1950. B. Kooringa, SA, 18 Jun 1892.

This would involve consideration of the method of control of shipping to ensure the best utilisation of the available tonnage, whether by

- (i) requisitioning by the Shipping Control Board of all Australian-registered vessels remaining after the navy had requisitioned all its requirements, or
 - (ii) retaining of vessels by their existing owners, subject to whatever control was considered necessary by the board.
2. Extent and method by which British ships might be used to help in the maintenance of the interstate cargo trade.
 3. Advisability of retention of interstate and intrastate ships under the one control.
 4. Necessity for and best means of effecting control of vessels owned and operated by companies outside the Australasian Steamship Owners' Federation, captured and interned enemy vessels, and naval vessels which might from time to time become available to carry cargo.

These were in part a repetition of questions which had already been canvassed, but some advance can be seen in the plans for a controlling authority.

Representatives on the committee covered oversea and interstate shipping companies, the navy and the Government. A shipping company representative suggested that the management of non-requisitioned interstate ships would best be left in the hands of the shipping companies, reminding the meeting that during the 1914-18 war control of shipping had not been undertaken until April 1918, three and a half years after the outbreak of hostilities; but, a government representative retorted, then 112 ships had been taken over for all purposes, whereas now the navy had already indicated its requirements and the first adjustments could accordingly be planned. In summary the position as it was put to this committee was:—

commerce carriers engaged in the interstate trade		89
earmarked for defence services	25	
intrastate vessels		82
earmarked for defence services	41	

It was estimated that the effect of requisitioning would be to reduce intrastate deadweight capacity by fifty-two per cent but interstate by only twenty per cent. This latter figure, however, was misleading, because, of the sixty-four interstate vessels left to commerce, thirty-five were committed to special bulk cargoes regarded as strategic, namely iron ore, coal, zinc concentrates, sugar and limestone, and only two vessels were to be requisitioned from this special group. In fact, therefore, for general cargo the interstate reduction would be thirty-five per cent and the question of alternatives or substitutes was important. It was estimated that oversea vessels moving around the Australian coast could perhaps take about half the deficiency, but they could only be used for general cargo, and even then their size limited them to the main ports.

Sir Thomas Gordon,⁴ also a shipping company representative, proposed a plan which, in addition to the Shipping Control Board, would include an

⁴ Hon Sir Thomas Gordon. Chmn and Manag Dir Birt & Co Pty Ltd. MLC NSW 1932-33; Rep in Aust of Brit Min of War Transport 1939-46; Dir of Shipping in Aust 1942-45. B. Ardrossan, SA, 26 Apr 1882. Died 5 Jul 1949.

Oversea Central Committee, an Australasian Steamship Owners' Federation Central Committee, and a joint committee to link these two together. These controls, he suggested, would operate only to the extent permitted by the position of the United Kingdom and the requirements of the navy. Only the framework of the plan was as yet necessary, but as the Oversea Shipping Representatives' Association's representative pointed out, it was necessary to have "exact information as to the United Kingdom Government's intentions in limiting ports to say one for loading, one for discharge, one for bunkering and the use of foreign ships. . . ." For oversea shipping, in short, the problem was still centred in the United Kingdom. For interstate shipping, however, the framework of control could proceed to the stage of draft regulations and the tentative constitution of the Shipping Control Board.

While these developments with direct reference to shipping were proceeding through the Department of Commerce, other authorities were becoming active. The Department of Defence, and later the Department of Supply and Development, initiated investigations which closely concerned shipping, although their central question was supplies from overseas. As a result the Financial and Economic Committee produced its four reports, two before and two after the outbreak of war, on the effects of an interruption of seaborne trade. Their efforts to plan for the interruption of supplies have been followed elsewhere, but like other investigators they turned to the navy for a basis on which to plan. Using 1936-37 figures and estimating France to be an ally and Germany, Italy and Japan to be enemies, the tonnages of oversea shipping coming to Australia in peacetime were set at:

		% of total
British and allied	4,665,000	74
Enemy	540,000	9
Neutral	1,070,000	17
	<hr/> 6,275,000	<hr/> 100

Estimates were made of the percentages of these normal peacetime tonnages which might be available on the outbreak of war and at the end of the first year:⁵

	Outbreak of war	End of first year
British and allied	70% of 74%: 52%	80% of 52%: 42%
Enemy	nil	nil
Neutral	17%	15%
	<hr/> 69%	<hr/> 57%

In the third and fourth reports of the Financial and Economic Committee which concerned coastal shipping and were not completed until November 1939, there was stress on the need to establish a special coastal shipping control to determine priorities for cargoes, to develop self-sufficiency as to

⁵ Memorandum concerning reduction of oversea shipping in war prepared by the Naval Staff for the information of the [Financial and] Economic Committee, 10 Jul 1939.

stocks within the States, to improve rail transport, and to build vessels adapted to the coastal trades as well as to rearrange shipping routes to economise the depleted fleet. In the Department of Defence, meanwhile, transport committees were also concerning themselves with the problem of coastal and interstate shipping, while in the Department of Trade and Customs the Tariff Board was investigating proposals for a bounty on local shipbuilding. That department was preparing to act as the Australian authority cooperating with the British Ministry of Economic Warfare in the traditional wartime shipping controls of contraband, navicerts, bunkering and the like.

So matters stood when the period of pre-war planning ended. Unfortunately while much had been achieved, indeed repeatedly achieved, in the definition of problems, very little could be claimed towards solutions. In relation to oversea shipping action waited on the policies and procedures of the British administration. In local shipping draft regulations had defined the nature and sphere of control, and the personnel of the proposed authority had been indicated, but the techniques of carrying out control of routing and running of ships were left to the private shipowners themselves.

This was in part the obvious expedient of using knowledge and experience, in part submission to the traditional view that shipping was technically a complex industry. In tonnage, for instance, designation could take three forms—gross, net or deadweight. Cargoes might demand specially designed ships, as with coal, iron ore, molasses or petrol. Such ships were different in operation from the regularly routed liner tonnage and tramp ships. Economical running of ships, both in time and space, depended in a high degree on stowage, and that in turn depended on where cargoes were picked up, and in what order they were discharged. Moreover, the shipping companies were not only strong as shipowners, but carried as well the weight of associated interests, in particular, coal, steel and sugar; the institution of unwelcome procedures and restrictions could be quietly but effectively opposed.

THE OUTBREAK OF WAR

So far as pre-war plans went, wartime action in relation to shipping proceeded smoothly enough. The services under the Department of Trade and Customs were instituted, the navy took over ships according to plan, the Shipping Control Board met.⁶ But these developments were little more than routine, and the future shaped by the course of war had little use for them. It was in oversea shipping that the war had its important effects, and the energies and ingenuity of the administration concentrated on problems arising there.

The Department of Trade and Customs had adapted the United Kingdom detention instructions, and incorporated into their chapter of the War Book "Instructions regarding the detention services in time of war", which

⁶ The inaugural meeting was on 5 Sep 1939: Minister for Commerce, Senator G. McLeay (chairman), Capt G. D. Williams (Controller of Shipping), Capt J. K. Davis, W. C. Stillman, Sir Thomas Gordon, G. R. Rickards, J. L. Webb, F. Bridgman, D. York Syme, Pay-Cdr J. D. Jackson.

set out the duties of customs collectors and covered special clearances for ships, control of radio communications, seizures of enemy ships, and contraband control. Some adjustment of the procedure for clearances was necessary for coastal ships since many of them used small ports at which a senior officer was not stationed. Similar adjustments were necessary in regard to the sealing of ships' radios.

The Department of Trade and Customs had been designated before the war as the authority to act in cooperation with the proposed British Ministry of Economic Warfare. A committee similar to that to be set up in London was planned, and duly established on the outbreak of war, with directions to consider "measures that can be taken to exert economic pressure on the enemy". Important as this was for the British ministry, it had little relevance for Australia, and, as was pointed out in connection with external trade, the Australian Committee of Economic Warfare, though it met once on 8th September 1939, was not active thereafter except to receive the *aide-mémoires* from the British committee. Ships' black lists were sent to Australia but the first, received in November, covered the names of Norwegian ships which had never entered the Australian trade, and although later additions and removals were faithfully noted and circulated to officers, it was not surprising that the Department of Trade and Customs could record that "at no time during the war did any ship listed in any of the categories call at any Australian port while so listed". Similarly, although bunker control and the restriction of repair and docking facilities were weapons of some importance as employed by Britain towards neutral European ships, and their application required decision by the highest authority, in fact no ship which might call for action arrived in Australia. The record of the Department of Trade and Customs' activities, therefore, was in the beginning mainly negative, but it indicates the concentration of the traditional wartime controls within a department traditionally very close to shipping. This concentration later proved of some importance in that it facilitated action by the department in connection with the *Anglo Maersk*, *Romolo*, *Remo* and *Pierre Loti*.

Requisitioning by the navy concerned the following cargo and passenger ships:

Date taken over			gross tons	
Sep	2	<i>Kooraka</i>	300	(voyage only)
	4	<i>Warrawee</i>	423	
	5	<i>Kanimbla</i>	10,985	
	12	<i>Orara</i>	1,297	
	25	<i>Doomba</i>	750	
Oct	12	<i>Duntroon</i>	10,346	(voyage only)
	14	<i>Manoora</i>	10,856	
	18	<i>Tambar</i>	456	
	20	<i>Coolebar</i>	479	
	30	<i>Bermagui</i>	402	
Nov	2	<i>Westralia</i>	8,108	
	3	<i>Uki</i>	545	
	7	<i>Nambucca</i>	489	
Dec	2	<i>Bingera</i>	922	

In addition six trawlers and three tugs were taken over in these first months. It is clear that the interference with local shipping by requisitioning was of little importance compared with the pre-war estimates. Of these ships four were large interstate passenger and cargo carriers, one an interstate cargo carrier, four from the New South Wales north coast trade, one from the New South Wales south coast trade, one from Tasmania, and three from other intrastate trades. Pre-war assumptions of a hostile Japan were not realised so that not only did the navy need fewer vessels, but the anticipated drastic interruption to merchant shipping on the coast did not occur.

The Shipping Control Board of pre-war planning had an inaugural meeting on 5th September. Chief among its resolutions was one that "there was no need under existing circumstances for the exercise of any control over the movement of ships and that shipowners should continue to carry on their normal activities until the minister, on the recommendation of the board, decided otherwise"; that there was no necessity either for specific regulations or orders governing the board's operations, although the minister should provide for a code of orders under Regulation 50 of the National Security (General) Regulations which the board could then recommend for adoption as circumstances required. That shipowners were "able to carry on their normal activities" was made possible by the organisation within the Oversea Shipping Representatives' Association of a wartime Oversea Central Committee.⁷

By December 1939 the position of the Shipping Control Board was clear. It had been provisionally appointed, and personnel named and approved by the Government, but formal gazettal of the appointments and promulgation of shipping control regulations were withheld as it became evident that no serious interference with coastal trade would occur, and that the tonnage still available after requisitioning could cope with the demands made on it. It was to deal with such questions that the board had been planned, and there was virtually nothing for it to do. Moreover it was realised that none of the main tasks in the regulation of overseas shipping as contrasted with the local traffic, that is preparation of detailed information, collaboration between exporters and shipowners, reduction in the number of ports of call, allocation of space or the handling of charters, could be performed by it. Indeed the law under which the board was created could not be used for these purposes because the only authority on which the Australian Government could act was that received from the United Kingdom or National Security Regulations for the control of cargoes. Only two of its nine members were shipping experts. Its own recommendation that its operation be deferred was a natural and uncontested consequence.

Instead the interchanges between Australia and Britain over the more real and pressing problems of overseas shipping had produced an advisory

⁷ Its members were: G. R. Rickards, chairman (Macdonald Hamilton & Co.), N. Kingsbury (Macdonald Hamilton & Co.), Sir Thomas Gordon (Birt & Co. Pty Ltd), E. A. Eva (Aberdeen and Commonwealth and Shaw Savill Lines), D. F. Middleton (Port Line), A. G. Potter (Birt & Co. Pty Ltd), S. V. Jones (Blue Star Line).

committee composed of representatives of the Oversea Shipping Representatives' Association, the Department of Commerce, and the Australian representative of the British Ministry of Shipping.⁸

With the outbreak of war Britain had adopted a licensing system on the assumption that "the British shipowner knew his own business best".⁹ From the Australian point of view the chief problem was to obtain from the British Shipping Committee a definite statement of policy which would permit the working out of a comprehensive interstate shipping plan for Australia, and the economic handling of overseas steamers on the Australian coast. The official secretary at Australia House was directed to ask, for example, whether, if Australian coastal services were depleted, as then (at the outbreak of war) seemed possible, British ships would be available to assist in overcoming the shortage; whether control of Australian coastal steamers would be necessary as a result of British control; whether separate ports for bunkering, loading or discharge would be desirable. To these no clear reply could be given and thereupon the Australians recommended the requisitioning of all liner space and the shipment of all goods under direction. They pointed to the various export control boards which had been established, from which they proposed small committees should be drawn to confer with shipowners on the handling of space. This was a useful arrangement but it did not touch the most important problems, as these appeared to Australian representatives, namely, the competition for profitable cargoes, and the effects of priorities laid down in England. As the Department of Commerce put it to the High Commissioner in September: "They [the shipowners] have shown every willingness to meet our requests so far, but it is doubtful whether any administration could survive where one line was carrying recognised profitable cargoes while others found themselves asked to carry the less favourable." The United Kingdom was accordingly urged to requisition all British shipping trading to Australia.

By 10th October the Ministry of Shipping was able to provide a list of commodities to which, for the assistance of liner companies, priority space could be allocated. These comprised: foodstuffs, cotton, flax, hemp, hides, skins and leather, jute, non-ferrous metals and metalliferous ores, potash, phosphate rock, rubber, silk, sulphur, timber, wood pulp, wool; and a month later the list was enlarged to cover:

Foodstuffs of all descriptions—particularly cereals in bulk or bags, sugar, oilseeds and oilcase, refrigerated cargo.

Metals—aluminium, antimony, copper, ferro-chrome, ferro-silicon, lead, magnesium, mercury, nickel, pig iron, steel, tin, zinc.

Ores, Concentrates—antimony ore, bauxite, chrome ore, copper ore and matte, cryolite, iron ore, lead ore and concentrates, magnesite, molybdenum ore and concentrates, nickel ore and matte, pyrites, tantalum ore and concentrates, titanium ore and concentrates, tungsten ore, wolfram and concentrates, vanadium ore and concentrates, zinc ore and concentrates.

⁸ Members were: G. R. Rickards, E. A. Eva, C. E. Whitaker, D. F. Middleton, S. V. Jones and A. G. Potter (oversea shipping interests), E. J. McCarthy (Commonwealth Government), Sir Thomas Gordon (British Ministry of Shipping).

⁹ W. K. Hancock and M. M. Gowing, *British War Economy* (1949), p. 124.

Textile raw materials—coir, cotton (including waste), flax, hemp, jute (including sandbags), silk, wool.

Miscellaneous—asbestos, bristles, candelilla wax, esparto, graphite, hides, skins and leather, mica, monazite sand, potash, rubber, sulphur, timber, tung-oil, wood pulp.

But these were only by way of general indication. The Commonwealth Government was beset not only by what appeared to be a need for coordination between the various departments in the United Kingdom concerned with the problem, but also by the realisation that unless the very best use could be made of shipping the ever-vigilant primary producing interests would be left with large stocks unshipped. Moreover, neutral shipping was being antagonised by the relegation to it of the poorer paying cargoes such as sugar, flour and metals, while the profitable wool, since it was going to the United Kingdom, went in British ships. It was noted that a number of neutral ships had abandoned the Australian for the Eastern trade.

In November and December conferences between the United Kingdom and Australian representatives faced the difficult and complex assessment of requirements against tonnage likely to be available. To this end the Australians presented information on phosphates, timber, newsprint, oil and wheat. For phosphates the British Phosphate Commission had four regular vessels in the trade and nine under charter. For timber the Australian and New Zealand run was reasonably served by two vessels, but orders from the British Ministry of Supply would require in Western Australia one vessel to lift an average of 4,500 loads every six weeks. Newsprint and oil presented no problems. The real source of Australian worry was wheat. To lift the old season's wheat seventeen vessels were required and to keep the railway sidings open for new wheat it was estimated that fourteen vessels a month in December, January and February would be needed.

The wheat position in the United Kingdom was serious and efforts were being made to remedy it, but its very seriousness pointed to seeking supplies closer than Australia and there seemed no way in which accumulation of stocks in Australia could be avoided. Nevertheless, on 5th December of an estimate of 918,000 tons of priority goods which could be handled 457,600 were allocated to sugar and wheat. The remaining 460,700 were divided among wool, steel, zinc, lead, with other priority goods sharing in similar degree. The British ministry estimated that to March 1940, the longest period to which it would commit itself, 850,000 tons of shipping would be available to lift these quantities. There was a gap of nearly 70,000 tons and the British resisted Australian pressure for some reduction in Ministry of Supply requirements, for the benefit of wheat, urging the Australian administration to seek more neutral tonnage.

This should have been reassuring, for at the worst the attitude of the Ministry of Shipping meant that they were prepared to allocate 335,000 tons to wheat and the gap of 68,000 tons for this commodity should have appeared very satisfactory in the circumstances. Australia had been warned

repeatedly before the war that there would be difficulty in the supply of wheat to Britain in the event of war, and a twenty per cent deficiency, by contrast, might have appeared mild. The persistence with which the Australian representatives pressed for an increase in the allocation to wheat at the expense of items which the British regarded as of higher priority, illustrates the basic Australian attitude. Another illustration, in itself trivial, is the way in which the Australian Minister, Mr Casey, at this conference raised the fact that on his journey to England he had seen German vessels laid up in neutral ports and asked whether it was not possible to buy them since they were in difficulties in meeting port dues and other charges. The Australians, with their concentration upon matters of domestic concern and acute sensitivity to the interests of exporting industries, in this as in other cases, in season and out, pressed for assurances about the availability of ships to move all goods which might be offered for export. Indeed it seemed they were seeking assurances not merely in relation to a known situation but about shortages of shipping that might conceivably arise. In fact, as has been noted elsewhere, Australian exports fared well and the exporting interests were in general reasonably well served by shipping.

Nevertheless it is impossible to study the Australian records of the time without being aware of a strong, even excited, local insistence on the vital importance of ensuring shipping for exports. There was some justification for this, in view of Australia's role as it was then seen: primarily a source of supply. In any case the constant Australian pleas for ships went beyond problems of wartime supply, concerning themselves with the much wider questions of disposal of Australian production. In them there was at times a note of panic, of apprehension lest any possible opportunity to secure ships might be overlooked. There was a desire to have safeguards against what might happen rather than satisfaction with what had in fact proved to be the position. Presently this attitude was to find expression in efforts, by way of chartering, purchasing and building, to have ships under Australian control as a way of escape from British policy.

Early in December 1939 the appointment of a representative in Australia of the British Ministry of Shipping was discussed on a basis similar to that for other Dominions. The fortunate choice fell on Sir Thomas Gordon who thus early began his unique career in Australian wartime shipping control. As a representative of the British ministry the priorities laid down in England were transmitted to him and he in turn passed them on to Australian government departments concerned, as well as discussing with the Oversea Central Committee the best use of available tonnage. The Australian administration, however, was concerned about the nature and extent of control which it was possible to exercise in Australian waters over overseas ships. As things were, the Commonwealth Government conveyed its wishes to the Oversea Central Committee of the Oversea Shipping Representatives' Association, but had no authority over that committee, which was under the instructions of its principals in London who conveyed to it the wishes of the Ministry of Shipping.

The Commonwealth Government, therefore, submitted through the High Commissioner the proposal for an Oversea Shipping Committee separate from the Shipping Control Board, to be made up of representatives of the Commonwealth Government, the Ministry of Shipping and the British lines operating in Australia. The British ministry agreed, the arrangement being that the ministry would issue instructions to the lines in London and to Sir Thomas Gordon, and the Australian committee would advise on the handling of ships.

Meanwhile early in January 1940 requisitioning of shipping by the British Government was announced. It was not until 25th January that the Oversea Shipping Committee was formed. Its functions were to advise the Commonwealth Government on all the problems and questions associated with overseas shipping and all matters arising out of the control of overseas shipping in Australian waters, together with questions of policy arising out of priority arrangements and out of the priority of cargoes not covered by British Government policy. It was decided that for the present there was to be no interference with the role of Oversea Shipping Representatives' Association or the shipowners' individual organisations in the control and management of ships.

The Department of Commerce was further concerned at what it regarded as considerable confusion over ports of destination and over the transmission of priorities. With meat shipments, for instance, instructions to exporters from that department about documents had conflicted with those from London to the shipping companies. The department and the exporters believed, reasonably enough, that they should have been notified of the instructions to shipping companies. Similarly the department was irked by instructions about priorities going in the first instance to the British ministry's representative, taking the view that when the shipping committee met, the Australian Government representative should also be armed with the wishes of the British Government. Requisitioning by the British Government altered the procedure so as to avoid confusion over ports, bills of lading being made out for an unnamed port in the United Kingdom and ships directed en route to their destination. It was agreed too that the British representative was to keep the Commonwealth informed, which appeared a quicker method than merely duplicating instructions.

These were rather minor matters but there is implicit in them the Australian discontent with control of the available shipping exercised from London and the conviction that exports must be shifted at all costs. The possibilities of action were necessarily local and in the first quarter of 1940 and increasingly under the impact of the disasters of May and June 1940 there were attempts so to arrange cargoes for ships as to enable them to pick these up speedily and without confusion. To this end the Department of Commerce conferred with export organisations in March. After discussing the disturbances in peacetime practice the Secretary of the Department continued, "it is evident that there is not now enough tonnage for the whole of Australia's export requirements. The liner tonnage could no doubt meet the berth cargoes, but in meeting priority

requirements these ships have been obliged to take cargoes formerly carried by the chartered ships.”¹ In peacetime shippers competed for the various cargoes and exporters of the more popular types of cargo could expect to get a ship when and how they wanted it, but under war conditions this must cease. Where, for instance, in peacetime three ships might call at one port for butter from three separate exporters, now one ship would enter to pick up all the butter, notification of the amount of which would have to go to the Overseas Central Committee. The need therefore was for collaboration with the exporter and for the organisation of the various industries so that arrangements for the allocation of space should be in the hands not of the individual exporters but of a body representative of all exporters. The available shipping could then be set against available cargoes and a figure of shipments agreed upon by negotiation. The central shipping organisation could then determine which ships would lift the cargoes and who the agents would be.

Necessarily the priority requirements of the United Kingdom had to form the basis for all these allocations but within these limits it was felt that each industry should have an opportunity for its claims to be considered in relation to those of other industries. There must, too, be consideration of the suitability of ships, the combination of cargoes to secure the most effective use of ships, ports of loading and discharge and so forth, techniques which might not be within the competence of the proposed export coordinating committee but which could be satisfactorily considered in consultation with representatives of shipowners. In many industries an authority appropriate to act with the coordinating committee already existed. As early as October 1939 the Department of Commerce had arranged to bring together representatives of the shipping committees in each of the meat, butter, cheese and egg industries in a coordinating Refrigerated Products Committee. It proposed to establish a parallel organisation for general cargo with shipping committees for each of wool, wheat, metals, sugar and miscellaneous general cargo, which would provide the members for a General Cargo Committee. That for refrigerated cargo was able to submit proposals for freight forecasts and the allocation of space for meat, butter, cheese, eggs and rabbits, in February,² while that for general cargo commenced to function in March.

In similar fashion the Overseas Central Committee directed its efforts towards meeting the needs of ships. Initially that committee invited shippers to submit a programme of requirements, but by the end of February Sir Thomas Gordon was planning to reverse the procedure because, as he shrewdly observed, “in fact it might encourage them not to worry about our steamer programme at all, but to ask for just what they require”. He was particularly concerned with meat which was a special case because storage space in cold stores could easily be overtaxed in the event of

¹ Conference of Export Organisations, 20 Mar 1940 and first meeting of Export Coordination Committee (General Cargo).

² A circular to licensees of the Australian Meat Board of 3 May 1940 set out details of “Refrigerated Freight Organisation”. This included details of the State committees to whom proprietors of all cold stores holding meat prior to export were to furnish returns of stocks and estimated deliveries.

non-shipment, and that in turn would hold up the trucking and delivery of beasts to the killing works. He suggested that "I think we would find that if we plan for refrigeration we will be able to fit the wool and general cargo into the picture without much trouble". He saw, too, the opportunities which war and single control offered in the reduction of ports. "We have not been able to achieve very much in this direction . . . [but] there is now a real opportunity to see if we can do something in the direction at which we have been aiming for years."³

This was in line with the view expressed by the chairman of the Oversea Shipping Committee to the first meeting of the Export Coordination Committee (General Cargo) that they "must know what the proposed cargo was, where it was to go and when it would be available for despatch, before they could make the best use of the available tonnage".⁴ Exporters undertook to supply every Saturday morning to the secretary of the Oversea Shipping Representatives' Association the port of shipment, time, and the quantity, of commodities contributed by each organisation, thus forming a basis for the cable on the shipping position which it was Sir Thomas Gordon's responsibility to send each Monday morning to the United Kingdom. At the second meeting of the Export Coordination Committee (General Cargo) on 10th May the Department of Commerce announced uncompromisingly: "for some time past the shipowners' organisations on the one hand and organisations of exporters of some products on the other have been handling the question of space allocation, but on May 1st all industries come under these arrangements and from this month the securing of space by individual exporters from individual shipowners will cease".⁵ The circumstances were that other authorities were laying claim to shipping space—the army, navy, air force, and canteens—and instead of negotiating as units they were to become an "industry" under the title of Defence. The Department of Commerce's representative urged that even if industries had so far found that their product was being moved they should "prepare their schemes for the allocation of shipping space amongst themselves. . . . We cannot say when the time will come when, either because shipping space is insufficient or because the Ministry of Food or Ministry of Supply limits the issue of its licences, the rationing of [space for] a particular commodity amongst its exporters will be necessary". He believed that the relationship between shipowners and the Central Wool Committee needed no further attention, but in other cases, even under the scheme for coordination, there was still unnecessary competition between industries and he concluded:

It would be wrong to say that because the United Kingdom wants their products because they are high on the priority list, industries such as wool, butter, meat, sugar and certain metals are not interested in the scheme of rationalisation. They are, because they are interested in the export trade of Australia as a whole. If the

³ A memorandum of 26 Feb 1940.

⁴ Commerce Dept File W115/1/26.

⁵ Opening statement by E. J. McCarthy.

shipowners as a result of the help they obtain from these industries in managing their ships can provide more space for other less favoured products, I am sure that that help will be forthcoming.

About this time the use of wheat to fill in small quantities of unoccupied space in vessels earmarked primarily for other cargoes gave rise to a blunt Australian statement on desirable policy. The background of this is to be found in the shipping arrangements for non-priority cargoes up to March 1940. In the early months there was some scope for negotiation between the shipping companies and shippers of non-priority goods, and when space was available and especially when the freight offering was of a profitable sort, it was usually possible to arrange shipment. This was a reflection of general policy at this time of disturbing the economy as little as possible, in consequence of which there was a degree of tenderness for the less essential industries which later on would not have been entertained. Sir Thomas Gordon outlined a plan to the Ministry of Shipping: "would it be possible and practicable to coordinate all requirements and arrive at the position of having one priority list, placing each item or allied group of items in the order in which you require them to be shipped?" If this could be done then, he suggested, "we would have a group of items not regarded as requiring priority from the point of view of your Controllers, but all or some of which it may be very desirable to keep moving, in a limited manner at least, in order to avoid certain industries here being put right out of business with all kinds of possible political repercussions". He proposed the setting aside of a proportion—tentatively ten per cent—of every vessel space, for the carriage of some non-priority cargo, the Australian authorities accepting responsibility for allocating it to the best advantage. This would have meant much less than normal shipment of the goods concerned, but it would, he urged, "satisfy Australian opinion and anticipate certain producers rushing to the Government with complaints of being ruined by the stopping of all means of export".⁶

At the beginning of April, however, Gordon announced to the Oversea Shipping Committee that the British policy for non-priority cargo was that not more than two and a half per cent of the total space in any vessel should be used for non-priority goods, and then should be used only if priority cargo was not available; surplus space was to be used for wheat and other cereals. The Government representative at once drew attention to the effect that this would have on commodities such as wine, canned fruit, fresh fruit (and possibly dried fruits, hides, tallow, jam) which, unlike the privileged wheat, were in normal times shipped by liner tonnage. It was this which produced the emphatic statement cabled to the High Commissioner on 6th April. The chief reasons for concern were that the exclusion of items such as these from regular liners as berth cargo left them without means of shipment while the "relief to the wheat transport problem given by putting wheat or flour in parcels in berth liners . . . would be negligible".⁷

⁶ Sir Thomas Gordon to Sir Vernon Thomson 9 Feb 1940.

⁷ Dept. of Commerce to High Commissioner 6 Apr 1940.

The source of the argument was no doubt pressure from the interests affected, but the Australian cable went somewhat further in challenging control from Britain

... the United Kingdom Government is not justified in exercising unqualified authority in the disposition of the liner tonnage but that the circumstances are such that Australia should have some voice in the matter. Whilst deliberately stating this opinion we must repeat that we recognise that the policy followed by the United Kingdom has up to the present resulted in the moving of the great weight of our exports. Also we wish ... to have in mind in presenting this viewpoint that we are probably not fully aware of the United Kingdom Shipping problems ...

The British response, as reported by the High Commissioner was to stress the embarrassing precedent that might be created by allocating the percentage of liner tonnage to be used at local discretion. The British ministry had in fact helped during April in shipping canned fruit and rabbits and the High Commissioner commented: "I feel that we are likely to obtain better results by working with the Ministry of Shipping whose goodwill we now have rather than by continuing to fight for definite allocation."⁸ The ministry's Australian representative underlined the reply in June by telling the Overseas Shipping Committee "that it is now more than ever important not to occupy with luxuries and non-essentials any space in liners which could be used for cargoes of high priority". But unfortunately whereas non-priority goods were not permitted transport in vessels controlled by the Ministry of Shipping, their import into the United Kingdom was still permitted. So the self-interested efforts of non-priority shippers to get their goods away could be supported by the argument that since Britain still permitted their import she still needed them. This sectional interest reinforced the more general conviction that Australia could or should get a better deal from Britain in the apportionment of tonnage.

This conviction came out strongly in Australian policy over the seizure of Danish vessels. When in April 1940 two vessels, the tanker *Anglo Maersk*⁹ and the freighter *Astoria*¹ were seized, the one at Fremantle and the other at Sydney, the tanker was handed over to the British ministry on 22nd May after her cargo had been discharged in South Australia, but the *Astoria*, after prize court proceedings, was retained by Australia pending the expiration of a time charter made between the Danish owners and the British Phosphate Commission. At this time the *Westralia*,² a Danish ship seized at Aden, was also under charter to an Australian organisation, Westralian Farmers, a cooperative selling organisation handling Western Australian wheat; the vessel had been used by the Australian Wheat Board. A little later on 11th June an Italian ship, the *Remo*,³ was seized at

⁸ High Commissioner to the Prime Minister 15 May 1940.

⁹ 7,705 tons, seized 14 Apr 1940. Handed over by C'wealth Government to U.K. Ministry of Shipping at Port Adelaide, 22 May 1940.

¹ 4,454 tons, seized 15 Apr 1940. Released by Prize Court 20 May 1940, handed to Dept of Commerce to administer as requisitioned ship.

² 4,568 tons.

³ 9,780 tons.

Fremantle although her sister ship, the *Romolo*, having sailed from Brisbane, escaped the navy's vigilance and was later scuttled by her crew.⁴

To the Australians these ships offered a prospect of tonnage under their own control. "It is hoped," wrote the Secretary of the Department of Commerce to the United Kingdom High Commissioner, "to retain the *Astoria* and the *Westralia* at the disposal of the Commonwealth Government. In taking this view it is necessary to point out that whilst it is freely appreciated that the ships contracted by the Ministry of Shipping or those influenced by them, such as the Dutch and the Norwegians, cater for the greater part of Australia's trade, there is much remaining, and the provision of ships for these cargoes is a source of continuous anxiety to the Commonwealth Government. . . . Commodities that come within this category are wheat, flour, barley, wine, timber, copra and others of lesser value. The activities of the Ministry of Shipping in relation to non-British ships are such that it is becoming increasingly difficult to obtain ships for these cargoes."⁵ He went on to instance copra, of which 20,000 tons had accumulated because the British Ministry had requisitioned ships from the trade and ships previously chartered for it were no longer available; and also the Australian Wheat Board which, apart from the United Kingdom contract, had 100,000,000 bushels to sell. The British Government pressed for the handing over of all three ships, particularly the Danish ones, pointing out that it had offered generous terms to neutral vessels which put themselves under British control, and felt a special obligation to Danish owners. The compromise reached by the beginning of July, in response to repeated Australian appeals for control of the vessels and their use for carrying Australian exports, was that the British Government withdrew its claim to the *Remo* and *Astoria* and in the case of the *Westralia* did not use the Australians' argument against the Australians—for that vessel had been seized in Aden by the British authorities and if Australia could claim the *Astoria* her rights to the *Westralia* were at best slender. The compromise entailed the formal transfer of the *Astoria* to British register, the Commonwealth accepting the final responsibility for any war damage compensation.

⁴ For details of the naval operations in connection with these ships see G. H. Gill, *Royal Australian Navy 1939-42*, in this history.

A civil department—Trade and Customs—also played a part in the delaying tactics which were employed to prevent the ship leaving port: searches for contraband, queries over ship's papers etc. The agents for the Line volunteered to unload the entire cargo of the *Romolo* (which had been paid for) but the department professed to be seeking industrial diamonds, an article which justified the prodding of every cask of soap and the filtering of every liquid on the ship, and might take months. The shipping man offered a deal, that the *Remo* then two days from Fremantle would enter port if the *Romolo* were released. The *Remo* carried urgently needed telephone equipment for Australia and New Zealand and Fiji and the deal was accepted, although, as noted, the *Romolo* escaped the navy. The problem was then to hold the *Remo*, and was complicated by the objections of some members of Cabinet. The Department discreetly organised industrial disputes and go-slow tactics among wharf labourers and the ship was still in port when Italy declared war. The *Remo* was renamed *Reynella*, a town in the constituency of the Minister for the Navy, who had opposed the department's tactics.

⁵ 20 Jun 1940. Noting that the United Kingdom was anxious to get the use of Italian ships seized he said, "I am directed by the Ministers for Commerce and Navy to advise you that it is proposed to retain the *Remo* either for use by the navy or to carry Australian export cargoes not catered for by ships contracted by the Ministry of Shipping".

CHARTERING

In December 1939, as has been seen, the Ministry of Shipping had turned Australian pleas for additional tonnage for wheat by inviting Australia to seek the use of more neutral tonnage, and in particular drew attention to the relatively safe phosphate trade into which neutral ships might be directed, thus releasing British vessels engaged in the trade. The Australian Government was not averse to exploiting the invitation, and in late January the Cabinet was presented with a report on the position with special reference to wheat. The source of the trouble, as with barley and timber, was that these commodities were catered for by tramp tonnage and that while the British bulk purchases had been accompanied by assurances that the lifting of the goods would be Britain's responsibility, the lag in shipping schedules was producing storage problems. The proposal was that

- (a) the Government arrange with the Wheat Board for the time charter of six ships for twelve months;
- (b) that the Wheat Board control the running of the ships in consultation with the Department of Commerce;
- (c) that an overdraft up to £65,000 be guaranteed by the Government;
- (d) that in the transport of cargoes other than wheat and flour the Commerce Department provide the link between
 - (i) the other export organisations concerned,
 - (ii) the Oversea Shipping Committee which supervised the working of liner ships and other ships sent out by the British Ministry of Shipping. It was important that there should be cooperation between all shipping services carrying Australian cargoes.⁶

It was admitted that securing tramp tonnage had been and would be difficult, but the proposal was approved and sent to the United Kingdom to see if it conflicted with arrangements and plans of the Ministry of Shipping which replied that its main concern was to prevent competitive bidding "leading to excessive charter rates". The ministry asked that the Westralian Farmers organisation, which was the London link named in the plan, should work through the chartering organisation of and in close association with the British ministry.

Nevertheless by 21st March three weeks' effort had produced the charter of only one vessel, the *Brattdal*,⁷ mainly because of the reluctance of neutrals to permit their ships to enter war zones, and because of the heavy chartering by the British ministry. The obvious alternative procedure was for Australia not to charter direct but to persuade the Ministry of Shipping to transfer some of its own charters:

Whilst we recognise the United Kingdom Government's right to use British ships to carry the goods she wants and to issue priority lists it is absolutely vital to the maintenance of our economic and national strength that the serious impairment of our export industries be avoided. It would be foolish of course for us to compete

⁶ Full Cabinet Agendum 275, 25 Jan 1940; to Economic Cabinet 16 Feb 1940—sub-committee to report. The sub-committee recommended up to ten ships and also that they should be on time charter. A suggestion had been made that the ships might carry phosphates from Ocean Island to Australia and cornsacks from India.

⁷ 4,968 tons.

with Ministry of Shipping in efforts to secure time charters, but it seems to us a reasonable request that, of those she has secured, four or five might be spared to us.⁸

The ministry, however, was unable to agree, and complained that Australia was seeking charters in competition with the ministry rather than by the arrangements agreed upon.

Australian success in securing control of *Astoria* and *Westralia* temporarily weakened the pressure for independent chartering, but later in the year the Government was again pressing the United Kingdom for some ships under Australian control. The cable of 7th August 1940 to the High Commissioner set out the attitude of the Australian Government: that their idea in seeking a few ships to be under their own control was to enable them to take care of those exports for which the Ministry of Shipping did not cater.

Whilst in the main the voyages will be to countries other than the United Kingdom we do not wish to be debarred from sending those goods to the United Kingdom which under United Kingdom import regulations are admitted entry but which the Ministry of Shipping vessels will not carry, for example, wine, feeding barley beyond certain quantities, and other commodities small in volume which are important to Australia. Unless the United Kingdom Government take the view that they will only grant import licences for those goods on the priority shipping lists we maintain that we are entitled to send to the United Kingdom in ships under our own control any goods permitted import. If this right were denied we should have to ask whether all other countries were similarly treated, for example, wine from South Africa. Of course the view of the United Kingdom Government might be that they do not object to this so long as we do not ask them for ships. Our answer can only be that we are prepared to charter our own ships, but found that everywhere we turned the Ministry of Shipping appeared to have got in first. Our object is to have these ships available to meet the difficulties we are frequently called upon to face, both overseas and interstate. In practice we work in with the Oversea Shipping Committee and also the Australian Wheat Board, and where gaps of any magnitude appear we try to fill them. Also where the Ministry of Shipping is faced with a problem we endeavour to help. In this connection the *Acadia*, a Wheat Board ship, and the *Brattdal* on charter to us, are at present carrying cargoes of War Office stores and requirements for Egyptian and Palestine Governments to the Middle East. Had we not made these arrangements with Gordon and the shipping companies the Ministry of Shipping would have had to meet the demand. The *Westralia* is also going to Suez with a predominantly army and other governmental cargo. In any case we think we are perfectly at liberty to send the *Brattdal*, *Remo* and *Astoria* where we choose, including the United Kingdom. We agree that under the terms of the charter the movements of the *Westralia* are subject to the approval of the Ministry of Shipping and if they refuse a United Kingdom voyage with some non-priority cargo we must of course accept.

We are planning to send the *Remo* to England with about 6,000 tons of non-priority cargo, principally wine and feeding barley with balance in priority metal. . . . Our object in sending these cargoes is to avoid serious and embarrassing problems with growers of barley and wine grapes.

The following concrete examples of the use we intend to put the vessels to may be of help:

- (a) supplementing coastal services arising out of the requisitioning for Admiralty purposes of large coastal vessels such as *Manoora*, *Manunda*, *Kanimbla*,

⁸ Prime Minister to High Commissioner 21 Mar 1940.

- (b) Far East service with wheat, flour, general cargo, some of which is for service requirements,
- (c) phosphates from Nauru,
- (d) extra cornsacks from Calcutta for reserve stocks,
- (e) non-government cargo for Middle East,
- (f) copra, though at present markets are the problem,
- (g) non-priority cargoes for the United Kingdom which United Kingdom traders are permitted to import,
- (h) incidental back loading such as bitumen, timber, potash, sulphur, cargoes not normally carried by the Ministry of Shipping.

The ministry meanwhile was stressing that the shipping situation was becoming more difficult, especially as German occupation of Europe meant that supplies from other sources entailed longer voyages and greater risks. They retorted, not unreasonably, to the Australian representations by pointing out that despite all the problems they faced the Australian proportion of all British imports in the six months of 1940 was higher than it had been for the corresponding period of 1938 and 1939, and that in the eight months since December 1939, of the cargo carried from Australian ports in liners controlled by the ministry, more than six per cent had been non-priority goods. In these circumstances Australian authorities turned again to active search for ships to charter, but found the field extremely narrow, especially because the arrangements between the British Government and the Norwegians and Dutch left little opportunity for Australian chartering. Again, when in October 1940 the Government was offered three small British-owned ships, registered in Hong Kong (two of them in the phosphate trade), the arrangements with the owner broke down because the British ministry promptly requisitioned two of them, and it was agreed that the third should remain with the British Phosphate Commission.

The fact was that the ships which the Commonwealth Government did acquire were acquired as a direct result of the Australian Wheat Board's difficulties.⁹ That board on the outbreak of war was the one authority in the Australian administration which had a well established shipping procedure for its products, as the result of which it had direct control over ships. It used as its London link Westralian Farmers who performed the technical duties of chartering for the board, according to the anticipated shipping demands of the harvest. Earlier, on 6th December 1939, the board had indicated its worries in terms of numbers of vessels: seventeen for the old season's wheat and fourteen a month for three months to keep the railway sidings open for new wheat. In normal times the board would have dealt in voyage charters, that is charters for single voyages to and from agreed ports. But when war broke out voyage charters became difficult to obtain and the board resorted to time charters for four, six or twelve or more months, the charterer being free, early in the war, to use the vessel within the limits of the charter party. But increasingly owners imposed limits on the area within which the vessel could trade and by

⁹ *Chios* (Greek) 25 Oct 1940; *Hav* (Norwegian) 27 Oct 1940; *G. S. Livanos* (Greek) 29 Dec 1940.

December 1940 the owners' approval had to be secured for practically every voyage.

The need was for vessels which were economical in long voyages and now vessels of this type were almost entirely Norwegian and Greek, and were controlled by missions from these countries operating in London. In November 1940 the board, continuing its search for every possible market for unsold wheat, planned to send flour to China in Norwegian ships, only to be told that Norwegian ships could not go there. Immediately the board chartered Greek vessels explicitly for that destination, but after two had sailed they were told that no further Greek ships could go to China. The Commonwealth Government took over *Chios* for a voyage to the Middle East with equipment, and *Hav* was similarly despatched to the Middle East. Thus, while the ships under Commonwealth Government control were increased, it was at the expense of the fleet of the Wheat Board who in consequence pressed for the inclusion of at least "three vessels of the ordinary tramp type with a carrying capacity of about 8,000 tons" among those which, the board understood, the Government was contemplating for purchase.¹ The board reinforced its plea with a reminder that their ships had "been able to assist other sections of the community by carrying goods on the return voyage to Australia. . .".

PURCHASE

The question of purchase had cropped up in June 1940 when Australia had asked the British ministry to transfer to Australian control ships which it had under charter. The message of 21st June ended "if we are unable to secure six ships by the means outlined we will be forced to consider purchase of ships to make up our deficiencies".² To the minister the secretary of the Department of Commerce wrote:

Under the circumstances I think the time has come when the Commonwealth Government should consider the purchase of a limited number of cargo ships. From enquiries made ships suitable in size, speed and type would cost between £300,000 and £400,000 Australian. . . .

A note of Cabinet proceedings records that the same department had the day before brought up the "purchase of Swedish ships" and the Cabinet agreed to "continue negotiations" but nothing appears to have come of this.³

The question of purchase revived towards the end of the year, as it became clear that there was little prospect of securing any large tonnage by way of charter. In November the War Cabinet decided "in view of the general shortage of ships for trade the Australian Minister in Washington is to make enquiries in the United States of America regarding the possibility of purchase of vessels of 9,000 tons and above".⁴ The High Commissioner in December reported on the limited possibilities open.

¹ Letter from General Manager Australian Wheat Board to Minister for Commerce 14 Dec 1940.

² To High Commissioner 21 Jun 1940.

³ Full Cabinet Minute 396.

⁴ War Cabinet Minute 640, 26 Nov 1940. This arose out of the selection of *Wanganella* as a second hospital ship. The United Kingdom was to be asked the prospects of obtaining another vessel, but if no substitute was available *Wanganella* would be approved.

The position is that very little shipping is available for purchase in countries other than America. Governments of Spain, Portugal and Sweden will not permit transfer from their flags. The Greek Government will no doubt compel Greek vessels transferred to the Panama flag to be retransferred to the Greek flag. South American countries may be neglected. Therefore America alone has shipping available in any quantity. The United Kingdom Government is making purchases from the U.S.A. Maritime Commission and also from private American interests. They prefer to deal with the Commission which sells by auction or by sealed bids. The Commission's ships have been laid up for long periods and need reconditioning. They are usually vessels about twenty years old. In practice it is found cheaper to buy vessels from laid-up fleets and recondition them than to pay the prices demanded by private owners.

The British Ministry was naturally very anxious to persuade the Australian authorities not to undertake competitive purchase, and by this time Australia was perhaps somewhat better informed about the ministry's problems. There runs through the discussions constant reference to the willingness of the Australians to act through the purchasing machinery of the Ministry of Shipping.

It appeared in January 1941 that four ships might be available; one of these was the *Hazelside* just completed in England, a vessel of 9,220 tons but the slow speed of eleven knots. From America three vessels appeared to be available, the difficulty there being that from 1920 to the inauguration of the current United States Maritime Commission's building programme, no tramp type tonnage had been built in the United States. Such modern vessels as had just been completed or were under construction were expensive and probably were not available for sale. The three in question were the twenty-year-old *Oklahoman* of 8,600 tons, the equally old, rather slow *Valiente* of 8,550 tons, and the *Florence D*, a small vessel of 3,850 tons which it was suggested might be used in the copra trade. (The tonnages quoted are deadweight; gross tonnages would be substantially lower.)

The Cabinet approved of negotiations for the purchase of these vessels but in the event negotiations came to nothing. The possibilities of securing by purchase ships for purely Australian control were fading rapidly. Three days after the Australian Cabinet decision the High Commissioner reported that the British Government had just bid for the last twenty-one ships of the United States Maritime Commission which were available, which meant that only the few privately controlled ships on the market were left. Moreover the Ministry of Shipping made it fairly clear that it would not support or act as agent for purchases of vessels intended to be kept out of the Allied pool. The High Commissioner continued:

The Ministry are prepared to act for the United Kingdom and Dominion Governments in the purchase of vessels. It would be understood that vessels acquired would be operated by the Governments concerned in the interest of the joint war effort. The precise allocation of such ships as may be acquired would be a matter for agreement on the highest political plane in the light of relative necessities. I recommend that you should advise me precisely the number of ships you require with all relevant particulars of type, speed, etc.

To this the Prime Minister replied:

... we wish for present to purchase up to six vessels if reasonably suitable. We realise that with field limited we cannot be too precise in our requirements. Subject to this our general ideas are 8-10,000 tons d.w. tramp type, minimum speed 10½-11 knots. If modern, motor vessels preferred, but coal, or oil acceptable. If old, coal or oil probably better. Also, if old, inspection enquiries as well as general condition important as on long runs danger of breakdowns has to be considered. One or two at about 6,000 tons might be considered primarily for coast. If anything with refrigerated space available, we would be interested.

But as the message to the High Commissioner reporting the decision to make a firm offer for *Hazelside* stated,

Whilst we are very anxious to get the vessel if it conforms to description we do not wish interfere with Ministry of Shipping. Hence our stipulation that you consult their views.

In a word the Australians were as anxious as ever to get ships, but only if this might be done without upsetting the British ministry's plans.

On 24th January 1941 the Prime Minister left for London, and on 26th February as a background to discussions which he "was likely to hold while in London" the following outline of the shipping position in Australia after eighteen months of war was telegraphed to the High Commissioner:

Difficulties had so far been experienced only in coastal trade and exports; imports with the possible exception of jute and phosphates were coming in steadily, but space requirements for exports were generally greater than that required for imports.

Under war conditions Australian shipping demands could be divided into:

- (a) commodities on United Kingdom priority list; dictated by British policy;
- (b) non-priority cargoes for the United Kingdom; inoperative for some time;
- (c) requirements for the Middle East and Singapore which are almost entirely war service requirements on account of both United Kingdom and Commonwealth governments;
- (d) coastal services, shortly to be limited to essentials only;
- (e) miscellaneous Empire services such as New Zealand, India, Hong Kong, Nauru, Pacific Islands, South Africa—largely essential in character;
- (f) foreign trade with America, China, Japan, which countries were being served more and more by foreign ships as British ships were withdrawn; this trade was valuable to Australian primary industries and as a source of foreign credits.

Steps leading up to the Commonwealth Government expressed policy of providing their own ships were first the limitation of United Kingdom tonnage to the transport of priority goods and the desire of foreign tonnage to take advantage of the most profitable opening; secondly the charter of ships by the Australian Wheat Board to carry wheat sold outside the United Kingdom Government contract and then to carry other goods when not using the ships for wheat; thirdly, the charter by the Commonwealth of its own ships, which were limited by the terms of charter to non-war zones and thus were used to replace ships with a wider range which had been also working the shorter runs. This development referred chiefly to the Middle East where at the end of February there were only two Commonwealth vessels not either in the trade or destined for it.

However in spite of the charter of these additional ships and steps taken by exporters and shipowners to save time in the turnabout of ships in Australian ports cargoes for the United Kingdom, including those on the Ministry's priority list, were accumulating, non-priority cargoes had not been carried for months, space for the

Middle East was insufficient, greater demands for Singapore were expected, and some help from non-coastal vessels would be inevitable if essential coastwise cargoes were to be cleared. It was this position that was forcing the Commonwealth Government to try and obtain more ships by charter, purchase or construction.⁵

SHIPBUILDING

Construction of merchant ships was no new venture for Australian industry. Locally built vessels had been part of the earlier Commonwealth Shipping Line and for more than a century shipbuilding had been a recurrent and often romanticised theme in the tradition of "development" which has already been remarked in Australian thinking. It had never grown to a major industry, partly because, on the whole, oversea shipping services had been adequate, but still more because extensive shipbuilding, or the building of large ships, were activities demanding both heavy capital investment and an advanced stage of industrial development which had not been achieved in Australia. These conditions were reflected in a higher level of construction costs in Australia, estimated at the outbreak of war as £14 Australian a deadweight ton higher in Australia than overseas, for vessels of medium size.⁶ Ordinarily, therefore, local shipping companies sought vessels overseas and were unlikely to place orders locally unless either there were restrictions, for example by way of duty, or subsidies on local building.

In the months immediately preceding the war there were moves, in part at least inspired by ideas of preparation for war, for the promotion of local shipbuilding. In June 1939 the Tariff Board had reported on the establishment of a bounty for shipbuilding. In September, after the outbreak of war, the Ship Bounty Bill was presented to Parliament. This was based upon the recommendations of the Tariff Board and provided:

- (a) The payment of a bounty on iron or steel vessels (other than war vessels) over 100 tons but not exceeding 1,500 tons gross register.
- (b) The rate of bounty to be £12.10s per ton on vessels over 100 tons but not exceeding 750 tons. Such rate to be gradually reduced so that on vessels of 1,500 tons gross register the rate would be £10 per ton.
- (c) Bounty payments to be limited to £50,000 per annum.
- (d) Machinery, boilers and auxiliaries required in the construction in Australia of vessels eligible for bounty to be admitted free of duty from United Kingdom and at 15 per cent from foreign sources.
- (e) The duties on vessels of the type eligible for bounty to be fixed at free (British Preferential Tariff) and 15 per cent (General Tariff).
- (f) The matter to be reviewed by the Tariff Board after the bounty has been in operation for a period of three years.⁷

Nothing tangible had been achieved in merchant shipbuilding before the war began, but such construction capacity as existed was not idle because

⁵ War Cabinet Minute 917 1 Apr 1941 approved Minister of Commerce's recommendation to purchase a vessel of 2,320 tons for approximately £100,000. The vessel, he said, was in America and he proposed that purchase should be through the Australian Trade Commissioner in New York.

⁶ Full Cabinet Agendum 82, 11 Apr 1940; submission by Dept of Trade and Customs.

⁷ *Commonwealth Debates*, Vol 161, p. 1120, 22 Sep 1939. The Bill became Act No. 45 of 1939. The Government varied item (d) of the board's proposals and instead machinery, boilers and auxiliaries were admitted free of duty irrespective of the country of origin.

the navy was engaged on a building programme. Authority was given in principle to the "fullest possible use of local shipbuilding resources".⁸ By April 1940 the small pre-war naval building programme had been increased by three Tribal class destroyers and four corvettes; by July 1940 twenty additional corvettes and one boom defence vessel had been ordered. By December 1940 a total of forty-eight corvettes had been ordered.⁹ Since 1913 only Cockatoo Island Dockyard, Sydney, had built naval vessels in Australia, but by July 1940 the following shipyards were engaged on naval construction: Cockatoo Island Dockyard, Mort's Dock, Poole & Steele at Sydney; Melbourne Harbour Trust (Williamstown dockyard); Broken Hill Proprietary Limited, at Whyalla, South Australia; Walkers Limited, at Maryborough, Queensland, and Evans Deakin Limited, at Brisbane.

In April 1940 the full Cabinet considered a submission from the Department of Trade and Customs, the department involved in the earlier attempts to establish the industry. This was based upon a report by Mr. A. R. Townsend,¹ who had carried out investigations into the possibilities and problems of merchant ship construction in Australia. In summary, his findings were:

- (1) *The Ship Bounty Act*, 1939, in its present form will have little effect in stimulating shipbuilding in Australia either now or after the war. No amendment of the Act is however recommended until a wartime shipbuilding policy has been implemented by the Government or even until shortly after the end of the war.
- (2) It is unlikely that Australian shipowners will generally have their future ships built in Australia unless the costs of same are as low as the Australian delivered equivalent of overseas costs or market values whichever are the less, and unless Australian built ships can be delivered to them with reasonable promptitude after having been ordered.
- (3) If the Commonwealth Government decides to encourage the establishment of shipbuilding as a war measure the local shipbuilding industry should be guaranteed the Australian market for ships (other than large or luxury passenger ships) for ten years.
The post-war position could be secured either by bounty, protective duties or both or by a prohibition of imports. Probably the best scheme would be to impose a sliding scale duty sufficient to cover at all times the difference between normal overseas costs and the occasional lower overseas costs and prices plus a revised bounty scheme covering inter alia the difference between Australian and normal overseas costs or prices.
- (4) There is already a pronounced shortage of shipping space for transporting Australian produce overseas and great difficulty in chartering or purchasing ships. This shortage may increase during the war. Therefore Australia should immediately engage in a wartime shipbuilding programme.
- (5) Although established Australian yards are fully engaged at the present time in building naval vessels there is little doubt that sufficient building berths are available or will be made available by State governments to enable an adequate commercial shipbuilding programme to be undertaken.

⁸ Full Cabinet Minute 94, 18-22 Sep 1939.

⁹ 20 for the R.N., 24 for the R.A.N., 4 for the R.I.N.

¹ A. R. Townsend, OBE, Chief Investigation Officer, Dept Trade and Customs, C'wealth Adviser to Internat Sugar Conference 1937. B. Brunswick, Vic, 3 Mar 1891. Died 24 Apr 1944.

YOO HOO!



- (6) In view of the risks of heavy losses private shipbuilding concerns cannot be expected to take any initiative in building ships during the war and the Commonwealth Government should immediately undertake the responsibility of providing ships to transport Australian produce abroad. The Government should not, however, charter, buy or build ships for war needs unless some definite arrangement is first made with the British Government that the tonnage it now allots for the carriage of Australian exports will not be reduced.
- (7) The Commonwealth Government should create a Commission to advise the Government in this connection but the actual building of the ships should be carried out by proved shipbuilding companies under contracts with the Commonwealth. Furthermore the operation of the ships should be undertaken by experienced shipping concerns under charter or on commission.
- (8) The Government should build vessels of standardised types only, and plans and specifications of such vessels should be obtained immediately from the United Kingdom.
- (9) Vessels built on behalf of the Government should contain only Australian materials and equipment as far as possible. At least 90 per cent of the necessary materials can now be efficiently made in Australia.
- (10) Speedy and economical construction is absolutely essential. Therefore as a condition precedent to the establishing of a large shipbuilding programme an undertaking should be obtained from the industrial unions directly or indirectly concerned in shipbuilding that they will agree for the duration of the war and until all ships uncompleted when the war ends are actually completed, to dilution of labour where necessary, continuity of work, and piecework where practicable. A Tribunal (or Panel) should be established for prescribing conditions relating to these matters for safeguarding the Unions concerned against exploitation thereunder and to consider any dispute outside the scope of Arbitration Awards. The Tribunal to be composed of one representative of the Unions, one representative of the employers and a Chairman mutually agreed upon, or, failing agreement, nominated by the Commonwealth Government.
- (11) The net profit for shipbuilders building vessels on behalf of the Commonwealth Government should be limited to 5 per cent and guaranteed at that amount.
The Accountancy Panel of the Department of Supply and Development to consider and recommend equitable methods of restricting profits to that level.
- (12) Multiple orders and continued operations in all yards are essential to low costs.
- (13) It is estimated that the excess costs of building standardised cargo ships in Australia when Australian shipbuilding is well established would not exceed the costs of similar quality ships in the United Kingdom by more than £10A per ton dead weight and may become less than United Kingdom costs or world market values under future war conditions.
- (14) It would be wise in order to avoid or reduce capital loss, for the Government to sell the vessels built on its account as soon as possible after the war ends.
- (15) An endeavour should be made to obtain certain experienced technicians from the United Kingdom or United States of America.
- (16) Action should immediately be taken to train sufficient officers and crews in Australia to man any vessels built on behalf of the Commonwealth Government.
- (17) An approach should be made to the British Government asking whether it is desired that Australia build vessels on behalf of the United Kingdom and if so on what basis of payment.

These views and conclusions were to recur again and again in subsequent discussions of the problem, whether derived from this report or arrived at independently.

The Minister for Trade and Customs, as might have been expected, urged the case for financial aid to develop construction because of the position, actual and feared, of export products, but the Cabinet contented itself with referring the matter to a sub-committee, while, in view of the obvious interests of the United Kingdom, the views of the Ministry of Shipping were sought through the High Commissioner, who asked whether the United Kingdom would be prepared to buy vessels built in Australia, and whether the ministry would prefer the Commonwealth to sell or charter ships to private companies. The ministry cautiously replied to the first question of purchase by Britain, that it was unlikely to arise. The ministry was inclined to favour a policy of arranging for private companies to manage ships as agents for the Commonwealth rather than outright sale or charter, but suggested that if the Commonwealth were afraid of a collapse in ships' values at the end of the war and therefore wished to sell immediately on completion, it would be desirable to attach a condition that during the war the use of the vessels should be subject to Commonwealth approval. Unasked, it added the clear indication that it did not favour construction in wartime of liner tonnage and raised the question whether Australian yards would not be fully occupied with naval construction, on which it was probably desirable for Australia to concentrate.² There may have been in this some reflection of a British desire that wartime considerations should not build up a new competitor for the post-war period, but it was a fair point.

In May 1940, before this answer had been received, the Cabinet sub-committee reported in favour of the building, as promptly as possible, of standard ships designed for transport of primary products. They had before them preliminary plans from the Caledon Shipping and Engineering Company of Scotland which they regarded as adequate basis for an invitation to local shipyards to tender. The sub-committee thought that ten ships of the class covered by these plans should be considered as a first step and reported that Broken Hill Proprietary Limited were prepared to enter the industry, building either two or four ships on a cost-plus basis, starting in July. The Cabinet would not go beyond directing that full plans should be obtained from the Caledon Company and a new sub-committee be authorised to explore the possibility of arranging for established shipping companies to take over and run the ships. Meanwhile all other questions raised by the proposal were reserved.³

The following month the Department of Trade and Customs sought to keep the matter alive, an effort of some difficulty in view of the pressure of overseas events and the preoccupation of the executive with major de-

² High Commissioner to Prime Minister 19 Jun 1940.

³ Full Cabinet Agendum and Minute 82, 22 May 1940. The plans were for a single-screw vessel of 9,250 tons deadweight. The proposed speed of 11 knots was regarded as inadequate in the light of Townsend's advice, "almost universal" from experts, that 9,000 to 10,000 tons ships' most economical speed was "12 plus an additional 3 knots".

cisions. It proposed that "certain important matters should immediately be decided in order to prevent any avoidable delay both in calling for tenders and ensuring speedy construction of ships".⁴ The matters on which it wanted decisions were approval of the construction of ten ships; the establishment of a shipbuilding commission; the obtaining from interested trade unions of industrial guarantees as foreshadowed in the Townsend report; administrative arrangements for the operation of ships; and determination of a policy for sale of the ships after but not before the end of the war; search for skilled labour in the United Kingdom and United States of America; training programme for officers and crew; curtailing of shipbuilders' profits; and a forecast of ten years support for the industry by the Government. The submission carried a draft press statement by the Prime Minister announcing the decisions the department sought.

In the circumstances of early June 1940 this was very optimistic. No record of any decision appears, except that a note of 27th June exists recording that the Minister for the Navy was to have authority to draft regulations relating to shipbuilding, which probably represented no more than that department staking its justifiable claim to a leading place in any extensions of the development which, insofar as it meant actual construction, had been until then its exclusive concern.⁵

Apart from the pressure of other urgent matters, the major decisions in the supply field taken in May 1940 had imposed heavy immediate demands for materials and labour for munitions, while, as part of the general increase in service programmes, the navy had placed orders for further naval building. When these orders were reported to the Cabinet it was with the warning that "it is considered the completion of the construction programme by the end of 1941 will entail the fullest use of all Australian shipbuilding resources".⁶

But the question of local merchant shipbuilding was not likely to be dismissed in this way while interests as potent as those of exporters remained unsatisfied. Attempts to charter had produced poor results; attempts to purchase, none at all; local construction therefore appeared as the last alternative by which shipping under Australian control could be secured. A report in the *Melbourne Herald* on 30th October 1940 precipitated the final chain of decisions. This concerned negotiations by the British Ministry of Shipping with the United States authorities for the construction of ships in that country for the ministry. The Prime Minister pointed out to the War Cabinet that:

as the immediate Australian shipbuilding capacity is being devoted entirely to the construction of naval craft and in view of the trend towards decentralisation of the Empire's productive resources of munitions as well as certain strategical considerations, the proposal might have some interest for Australia should it be found possible to transfer the necessary labour for the establishment of yards here.⁷

⁴ Full Cabinet Agendum 82, 11 Jun 1940.

⁵ In the weekly progress report to the War Cabinet on 4 Jun the Chief of the Naval Staff emphasised the importance of coordination of such activities with naval shipbuilding to prevent competition. To this end he considered that the Director of Engineering should be a member of any ship construction body which might be constituted. War Cabinet Minute 295.

⁶ War Cabinet Minute 470, 29 Aug 1940.

⁷ War Cabinet Minute 621, 4 Nov 1940.

The British reply to an official inquiry whether Australia might not be used as the location for the building of ships made it plain that the United Kingdom could not consider sending out labour, equipment, or materials, without which a substantial Australian construction programme seemed impracticable.

The War Cabinet was at the same time presented with a memorandum from the Chief of Naval Construction, Engineer Rear-Admiral McNeil,⁸ dealing with the position of shipbuilding in Australia and the practicability of further development of facilities. He stressed that "the ordering of merchant ships is not merely a matter of calling public tenders and accepting the lowest, but one of first creating the facilities for carrying out the work and then organising its execution so that . . . all resources will be used to the best advantage".⁹ Recounting the development for the previous fifteen months he went on to point out that the time for serious consideration of building ships for the oversea trade had arrived, but warned that this would demand much preparation and much greater expenditure, and in particular that there was a very serious shortage of labour, especially in managerial staff and experienced men of the draughtsmen and foremen classes. He expected construction work of the naval programme would start to taper off about September 1941 and that it would therefore be practicable if action were begun immediately to have five or six berths equipped for the building of merchant ships.

Walsh Island Dockyard in New South Wales was a good illustration of the gap between local aspirations and popular ideas of what was possible on the one hand, and hard technical requirements of construction on the other. The possibility of reconditioning this yard had been raised in the War Cabinet as early as April 1940. In August the War Cabinet stressed the importance of use being made of the resources at Walsh Island as the non-use of this yard figured so largely in the public mind as to discount to a considerable degree the claim that the fullest use is being made of all shipbuilding resources. It was noted that the Premier of New South Wales has been advised that the Commonwealth is prepared to place an order for patrol vessels immediately on the rehabilitation of the works as a shipbuilding concern.¹

In his report McNeil said there had been much misleading publicity, and agitation by former employees of this yard for a revival of construction there, creating the impression that all that was needed was the placing of orders. The facts were, he said,

that while there is still a quantity of useful shipbuilding plant on the Island, such plant represents only about 50 per cent of a complete hull-building unit, whilst the engine shops have been completely gutted, the buildings allowed to fall into an advanced state of decay, the building berths have been rendered useless by the removal of cranes and the harbour in way of the building berths and fitting-out wharves allowed to silt up.²

⁸ Eng Rear-Adm P. E. McNeil, CB, Dir Engineering R.A.N. 1931-40; 3rd Naval Member and Chief of Naval Constn 1940-43; Dir Shipbuilding 1941-48. B. Melbourne, 25 Sep 1883.

⁹ War Cabinet Agendum 269/1940, 9 Dec 1940. By March 1941 naval vessels built or under construction were: 3 Tribal class destroyers; 2 sloops; 26 corvettes (16 for the R.N. 10 for the R.A.N.); and 3 boom defence vessels.

¹ War Cabinet Minute 470, 29 Aug 1940.

² War Cabinet Agendum 269/1940, 9 Dec 1940.

The War Cabinet decided that the Board of Business Administration and McNeil should jointly review the problem of local building, covering the various issues involved in a merchant shipbuilding programme, including the initial financial cost and organisation which should be provided, "deferring its allocation to any particular department".³ The Director-General of Munitions should be consulted and the possibility explored of securing from London someone to supervise construction. The report so produced was the statement from which executive action was taken in the final phase, although it may be noted that, as with other documents, it echoed again the essential points of the Townsend report:

- (a) Preparation of shipyards for building merchant ships of not less than 9,250 deadweight tonnage should be commenced immediately.
- (b) Director-General of Munitions should be responsible for the supervision and direction of merchant shipbuilding and should be associated with Rear-Admiral McNeil as Director of Shipbuilding who might retain his present position on the Naval Board. Mr. Nixon, Director of Finance, Munitions Department, would be responsible for the general finance administration of shipbuilding.
By this direction of munitions production, merchant shipbuilding and navy shipbuilding could be synchronised and coordinated. This appears to the Board to be absolutely essential if the three programmes are to proceed without overlapping and competition.
- (c) Unless the United Kingdom Government is prepared to purchase ships when built and provide progress payments as work proceeds, only other practicable alternative would be Commonwealth Government to finance the project at an estimated cost of £5,697,400.
- (d) There should be an agreement with industrial unions providing for continuity of work, dilution, training, etc. Industrial panels should be set up to regulate matters in industry as they arise.
- (e) Ships when built should be placed with shipowners as agents for the Commonwealth Government. It should be stipulated that they should be used primarily in the Australian trade.
- (f) It is desirable that the services of a well qualified man with experience in merchant shipbuilding in the United Kingdom should be secured to supervise hull construction and also a supervising engineer, such appointments to be dealt with when the question of control is settled.⁴

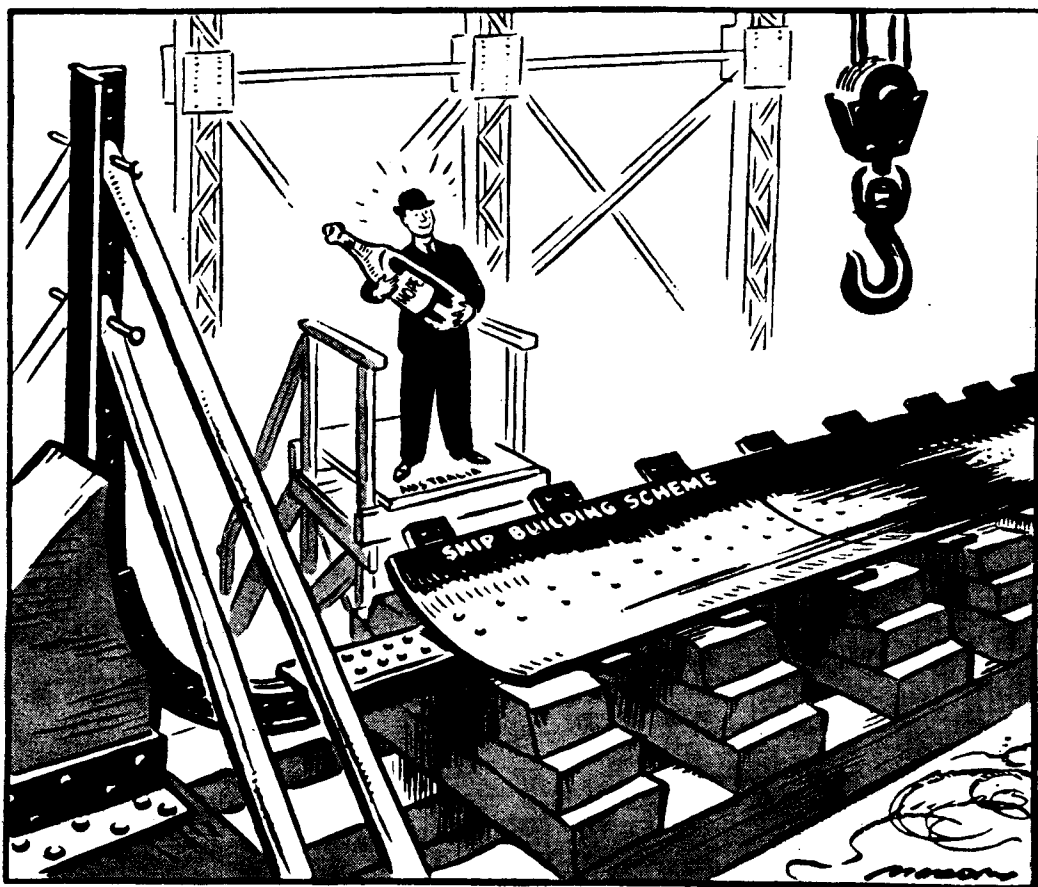
The suggested Shipbuilding Board went to the Advisory War Council for approval and thence, in March, under the guidance of the Minister of Munitions to the full Cabinet.⁵ The outcome was the shipbuilding regulations.⁶ The constitution of the board as laid down in the regulations settled the question of administrative control by attaching the board to the Department of Munitions, while providing for the special experience and interest of the navy. The chairman, it was prescribed, should be a "person of

³ War Cabinet Minute 668, 12 Dec 1940.

⁴ War Cabinet Minute 758, 4 Feb 1941.

⁵ The personnel of the board, when constituted in March 1941, was: Hon F. P. Kneeshaw (chairman), Eng Rear-Adm P. E. McNeil (Dir. of Shipbg), S. W. Griffith (finance member), A. S. McAlpine (employees' member), A. L. Nutt (secretary). From 4 Aug 1941 A. Percival, Surveyor-General and Chief Property Officer of the Commonwealth and chairman of the old Aust. C'wealth Shipping Bd, was a member.

⁶ Statutory Rules 1941, No. 63, 26 Mar.



GODFATHER

Mahony in Daily Telegraph (Sydney), 16 Jan 1941.

business experience".⁷ There was to be a finance member who was a public accountant, and two other members, one of whom was to be a representative of shipbuilding employees. The only *ex officio* member was the member of the Naval Board responsible for naval construction who was not only to be deputy chairman but also the Director of Shipbuilding and who, under the board, exercised executive authority. According to the regulations that authority was intended:

To control the building of all merchant ships and their repair and maintenance and, so far as may be necessary, to control all dockyards and other facilities required for such building, repair and maintenance;

To make arrangements or enter into agreements for the building of merchant ships and for all action incidental thereto (including all preparations and facilities required for such building);

To make arrangements or enter into agreements for the supply of engines, boilers and all other equipment for merchant ships and, at the request of the Naval Board, for the purpose of the Naval Board.

Concern about the possible cost of the programme was indicated by the specific limitation of the exercise of these powers to "the limits of available finance" and the reservation of all expenditure exceeding £25,000 for the approval of the minister.

The programme envisaged was ambitious, totalling sixty vessels, but the beginning was more modest: the placing of orders for eight ships, two each at Mort's Dock, Cockatoo Island, Evans Deakin and the Melbourne Harbour Trust. The sixty-merchant-ship programme was not fulfilled. Even given favourable conditions it probably never could have been, but in the conditions which did prevail in 1941 and later years to have insisted on its fulfilment would have been unrealistic. Ultimately many ships would be built, but the shipbuilding programme, like other ambitious plans, had to be reviewed and recast in the light of events which placed increasing and urgent demands on construction and repair resources.

THE SHIPPING CONTROL BOARD

The search for ships whether by charter, purchase or building was only one of the pressures which, at the end of 1940, converged to produce a decision that the time had come to implement the pre-war plans for a Shipping Control Board. This, it will be recalled, had been allowed to lapse at the beginning of the war. The navy felt the need for some civilian authority to cooperate with it in the matter of requisitioning; after the disasters of May 1940 the building up of emergency stocks of civil goods was a live issue and clearly depended upon problems of transport, and primarily of interstate sea transport; the Department of Commerce was increasingly concerned by the manner in which coastal shipping resources were being inefficiently used and luxury cargoes securing preference over essentials; there was also the special problem of coal, which was becoming much more serious. Finally the adoption of a policy of active shipbuilding

⁷ Official approval directed that an extra member with a knowledge of merchant shipbuilding be appointed which appears to have been replaced by this requirement in the regulations.

implied that in due course when the ships were built there would be a need for some authority to control their use.

After December 1939 naval requisitioning throughout the first half of 1940 called only for trawlers and tugs for minesweeping and anti-submarine operations; except for the large interstate vessel *Manunda* which was taken over as a hospital ship in the middle of May. After June 1940, however, the intrastate trades lost nine vessels to the navy (excluding vessels requisitioned for voyage only) and by November 1940 the total requisitioned stood at:⁸

Interstate vessels	6	representing 48,374 tons gross
Intrastate vessels	16	representing 9,931 tons gross
Tugs, trawlers and miscellaneous craft	20	

These losses came at a time when a new task was planned for coastal shipping following the review of the Australian position after June 1940. As a result of this review the "supply and distribution of essential goods to meet an emergency" had been the subject of various Cabinet submissions. At the beginning of October a conference of Commonwealth and State representatives found itself

unable to avoid the transport problems which have been delegated to special committees under the Department of Defence Coordination. The necessity for stocks cannot be estimated until the authorities concerned are able to judge the transport facilities likely to be available in the emergency. The evidence available to the Conference indicated that transport facilities were already inadequate to build up the stocks desired, and that they might be so hard pressed during an emergency with respect to essential and bulky materials for munitions and for public utilities, as to be unable to carry adequate foodstuffs for the community.⁹

In deciding that "coal was the weakest element in the situation" and that transport was required to enable stocks to be increased in Victoria, South Australia and Tasmania, the conference report pointed out that

even if the present high rate of production is maintained, and adequate transport facilities are available, it is doubtful whether more than three months stocks could be built up in less than twelve months in Victoria or that stocks could be substantially increased in South Australia.

The special committees had been given the task of assessing the local transport problems involved in the emergency stocks policy. The principal committee met a standing committee of the "supply and distribution of essential goods" conference on 10th October, when they decided

In view of the difficulty now being experienced in lifting cargoes on the Australian coast, particularly bulk cargoes, the Principal Committee affirms its previous decision that the Commonwealth Government should give immediate consideration to the constitution of the Shipping Control Board along the lines provided in the War Book.

If the full provisions of the War Book are not to be implemented for the present, consideration should be given to the whole shipping problem with the object of providing more adequate facilities for the handling of bulk cargoes such as coal, iron ore, timber, etc. on the Australian coast.

⁸ Full Cabinet Agendum 503, 26 Nov 1940.

⁹ Report of conference in full Cabinet Agendum 471, 8 Oct 1940.

Meanwhile, within the Department of Commerce the question of introducing shipping control was actively canvassed both in general and with particular reference to emergency stocks. A departmental memorandum of 16th September declared:

Evidence is growing that coastal ships now available are not able to meet full requirements and that it is likely that this position will become accentuated. Moreover, it is clear that extra demands on shipping arising out of the building up of emergency stocks cannot be met. For example, poor paying cargoes, such as coal and ore, are accumulating; freight for Queensland timber to Sydney cannot be obtained; removal of *Zealandia* from the Sydney-Hobart run has led to complaints from Tasmania; urgent defence supplies could not be carried last week from Newcastle to South Australia.

It went on to point out that the fact that some freights were more profitable than others, either because of higher rates or easier handling, meant that without control the scarcity of shipping produced the result that "general luxury cargo is being fully carried with essentials like coal and ore left behind". The bringing in of ships chartered by the Government would upset the pooling which made it possible for profitable cargoes to offset the unprofitable, and the hire of such ships would be more costly than the running of Australian-owned ships. The department therefore urged that

- (a) The Government should take power to direct the order of priority of cargoes to be carried and the order in which the ports be served, or
- (b) The ships should be requisitioned by the Government on the basis of a hire agreement, shipowners continuing to run the ships as managers, as one fleet, augmented where necessary by chartered ships.

In December the Government representative on the Overseas Shipping Committee had explored the possibilities of overseas vessels assisting in the movement of cargo, accumulating at certain Australian ports, which could not be lifted by the reduced tonnage of interstate vessels; such assistance to be consistent with the principle that it was vital for vessels in the United Kingdom and Middle East trades not to be delayed on the Australian coast. Sir Thomas Gordon made it clear that such steamers could not be delayed, so cargo carried would need to be of a type quickly worked, and to be loaded and discharged at the same time as overseas cargo; that overseas companies could give no forward programme in the homeward trade in view of the day-to-day alteration that occurred in their programmes; and that interstate companies should be given to understand that it was not possible to depend on overseas steamers carrying any appreciable quantity of coastal cargo; moreover that crews were likely to claim coastal rates of wages as they were already complaining about the amount of overtime worked.

Last there was the effect which the worsening of the supply of shipping and the absence of control was seen to have on supplies of coal, which were transferred interstate mainly by sea. In October the Ministers for Navy and for Commerce reported to the War Cabinet that

if additional merchant ships were requisitioned for naval purposes in the event of the further deterioration of relations with Japan the already unsatisfactory position of stocks of coal throughout the Commonwealth would become gravely acute.¹

The naval point of view was put by their representative on the principal committee in Defence Coordination:

... ships are selected primarily for their suitability from a naval point of view for the service required of them. . . . It would be of benefit to commerce generally if there was an effective authority readily available and with full knowledge of the requirements of the various Australian coastal trades to whom Naval Board could say 'Our requirements are so many ships of such and such a type. Please tell us which ships of this type could best be spared from their normal commercial service'. It appears to the Naval Board that this function could be carried out by the Shipping Control Board if that body were operating.

A submission to the War Cabinet in January 1941 suggested that objections might be expected to proposed requisitioning by the navy of "certain vessels now employed in interstate and intrastate trade", and reported representations from certain companies that the navy was not getting the best use out of requisitioned ships; that it used them only eight hours a day, while in the United Kingdom vessels would be in continual use, up to twenty-four hours daily.

The matter was deferred, but in February 1941 the chairman of the newly-established Shipping Control Board could be consulted, and his view was that the requisitioning of the vessels in question could be effected without unduly interfering with trade.

This brought the total number of vessels requisitioned for minesweeping to thirty-seven. Replying to the allegations, concerning use, the minister said: "trawlers that have already been requisitioned are being used as much as the endurance of ships and men will allow. In comparison with the United Kingdom we have fewer ships to do the necessary work and it is probable that ours are being worked as hard as theirs". To this the Naval Chief of Staff added that the ships were working "continuously and were only docking for boiler cleaning and relief of crews". It was impossible to work as minesweepers during hours of darkness.

As will be seen, the vital issue in overcoming the problem of coal supply was not so much that of the volume of shipping as that of synchronising the availability of ships with the flow of coal to the ports. But the fact that the supply of this vital commodity was threatened by shipping difficulties meant that, when added to other arguments for shipping control, it was sufficient to decide the issue. The Ministers for Commerce, Supply and Development and for Trade and Customs, who had formed the Cabinet sub-committee, reported in November. They had examined the problem in the light of the following matters:

- (i) the supply of shipping;
- (ii) the difficulty in securing freights for certain basic commodities such as iron, coal and timber under present conditions;
- (iii) the necessity for building up stocks of essential commodities in the States;
- (iv) the provision of a local scheme for war risk insurance on ships and cargoes;

¹ War Cabinet Minute 573, 9 Oct 1940.

and they now recommended:

1. the gazettal of regulations (already in draft form) to provide for the control of coastal shipping under the Minister for Commerce;
2. the appointment of a shipping controller to whom the Minister for Commerce would delegate the necessary powers under the regulations;
3. the establishment immediately of a local scheme for war risk insurance on ships and cargoes;
4. the fixation from time to time by the Commonwealth Prices Commissioner in consultation with the Shipping Controller of rates of freights and fares that will provide reasonable compensation to the shipowners against loss incurred on account of
 - (a) an increase in the proportion of cargo carried at relatively low freights; and
 - (b) increased costs.²

The decision was taken forthwith (it was cited as established fact in another submission on coal three days later); and regulations for control were issued on 5th December.³ These did not provide for a shipping control board and vested control in the Minister for Commerce, but their issue was followed immediately by conferences with shipping interests "in regard to their cooperation in the administration of the regulations".⁴ The day after the regulations were issued the rationalisation and control of interstate and intrastate shipping were discussed at a conference between the Ministers and Assistant Ministers for Commerce and for Supply and Development, twelve shipping companies, as well as the representative of the Commerce Department's Marine Branch.⁵ Among the items on the agenda was the organisation to be set up for shipping control, but the formal record of the conference does not disclose the attitude of the shipping companies beyond their desire that they should be left to administer the policy and run the ships subject to oversight by the minister. By 17th January the Government's desire to appoint a control board under the regulations was made known to a further conference of shipping interests under the chairmanship of Sir Owen Dixon⁶ who had been invited, as he

² Full Cabinet Agendum 503, 26 Nov 1940.

³ Statutory Rules 1940, No. 275.

⁴ Prime Minister to Advisory War Council, Minute 60, 6 Dec 1940.

⁵ The subjects for discussion were:

1. Best use of coastal ships with particular reference to their routing and cargo priority.
2. Coal, iron ore, timber and civil supplies generally.
3. Elimination of luxuries and non essentials.
4. Supplementing use of overseas ships for carriage of interstate cargoes and liaison with overseas shipping organisation.
5. Use in interstate trade of the four ships run by the Commonwealth and of Wheat Board ships when necessary.
6. Methods to be adopted in selection of further ships for requisition by Navy as required.
7. Study of general effect of naval requisitioning.
8. Organisation to be set up for shipping control:
 - (a) to decide policy,
 - (b) to administer policy and run ships. Assistance which shipowners' organisations can render through their Traffic committees; State committees etc.
9. Liaison with coal control.
10. Accountancy arrangements.
11. Adverse influence of low freight rates on coal and iron ore.
12. Question of requisitioning for commercial running—form of charter agreement, rate of payments, conditions of running.
13. Mechanical appliances at ports—loading and unloading.

⁶ Sir Owen Dixon, KCMG. Justice of High Ct of Aust 1929-52, Chief Justice since 1952. Chrmn Central Wool Ctee 1940-42, Shipping Control Bd 1941-42, Marine War Risks Insurance Bd 1941-42; Aust Min to Washington 1942-44. B. Hawthorn, Vic, 28 Apr 1886.

announced to the conference, to preside over the proposed board. So it was that, at the end of the month, the first set of regulations was replaced by those which brought into existence the Shipping Control Board.⁷

A much smaller body than that planned immediately before the war, it was to remain the authority over shipping for the rest of the war years. It comprised, in addition to the chairman, who was required to be a High Court judge, the secretary of the Department of Commerce, and a ship-owner nominated by the chairman after consultation with shipowners.⁸ The board was empowered to exercise control over ships on the Australian register wherever they might be, ships under charter to any company or person resident or operating in Australia if the ship was in Australian territorial waters, and British ships engaged in regular trade between Australian ports and ports outside the United Kingdom, once again while such ships were in Australian waters. The board might give directions as to the trades in which a ship should engage and the voyages it should make, its cargo or passengers, the terms of hire for the ship itself, and rates for cargo and passengers, priorities for cargoes, ports of loading and discharge and similar matters. Ships or space in ships might be requisitioned for either cargo or passengers and the owners in such case might be required to act as agents for the Commonwealth. No ship registered in Australia might in future be chartered except with the approval of the board, which might attach conditions to its approval, a provision which took care in advance of the control of ships to be constructed by the authority then being planned, and shortly to emerge as the Shipbuilding Board.

SHIPPING COSTS AND CONTRACTS

The proposals of December 1940 preceding the first shipping regulations had embraced marine war risks insurance. This was one of the major factors in the claim of shipping companies for increased freights, and once extensive requisitioning of local tonnage was foreshadowed it was clearly necessary, in arriving at local charter rates, to consider the cost of marine war risks insurance.

The Prices Commissioner had necessarily taken a leading part in discussions of freight rates. Control had been compelled early by the action of the Associated Shipping Companies on 2nd October 1939 in increasing shipping freights by a surcharge of twenty per cent without consultation with government authorities. A rapid preliminary examination by the commissioner led to this surcharge being halved a week later, a decision which was confirmed by more thorough investigation, and there the rates remained until the whole question was again reviewed in September 1940 after a request from the companies for a substantial increase. In accordance with the general policy of price control the examination took account

⁷ Statutory Rules 1941, No. 20, 30 Jan.

⁸ Those appointed were: Sir Owen Dixon (chairman), J. L. Webb (Assoc. Steamship Owners), J. F. Murphy (Secty, Dept of Commerce). From 27 Mar 1941 J. F. Brame (Assoc. Steamship Owners) became Chief Executive Officer, and H. Sullivan secretary of the board. From 28 May 1942 Mr Justice T. S. Clyne replaced Sir Owen Dixon as chairman, after the latter had been appointed Australian Minister to U.S.A.

of the financial position of the companies, their increased costs, including in particular war risks insurance, the effect of the requisitioning of certain ships by the navy, and the revenue from cargo and passengers. The decision was to permit a further increase of five per cent in freight rates and, in addition, a ten per cent increase in passenger fares, although the companies did not immediately take advantage of the latter because the passenger trade was already affected by wartime risks of travel.⁹

The commissioner stressed the fact that war risks insurance appeared to be not only the most important element in increased costs but the one most open to local control. Then done through outside brokers in London, it had first been arranged through the official war risks associations there. Necessarily the rates fixed by these associations were heavily affected by the severe losses experienced in other parts of the world and the companies had sought to contract themselves out of the war risks associations and to insure through outside brokers. By this time all the Australian companies had done this and the rate for the current quarter ending November 1940 was 30s sterling per cent. At this rate the total cost for the Australian interstate ships covered by the Associated Steamship Owners would amount to £350,000 a year which was responsible for more than half of the 15 per cent surcharge in freights which had been allowed. Thus war risks rates based upon the dangers of Atlantic travel accounted for more than half of the increased costs of running ships on the Australian coast.

There were clearly disadvantages for the Australian owners in these arrangements. If they adhered to the war risks associations they would be accepting an undisclosed and unpredictable obligation for losses in the waters where the risks were far heavier, which would demand a higher general level of insurance rates and necessitate therefore a greater surcharge on freights. Insurance with outside brokers could be obtained at lower premiums but these rates too were fixed in London outside the control of the Australian Government, which was in a position to assess the risks of particular voyages and, if necessary, to direct ships to remain in port. A lesser disadvantage was that a substantial amount of premiums was remitted to London, involving a drain on Australian reserves abroad, a matter which was still, at this stage, regarded with concern; although, of course, in the case of loss, payment would in most cases be remitted to Australia.

A local scheme for Australian coastal shipping was therefore urged, primarily as a means of restraining the rise in costs and therefore of freights. The nature of the coastal fleet made it comparatively easy to

⁹ The discussion concerns local freight rates. The Government was to be concerned about overseas rates also, in particular those charged on mechanical transport for the Services to the Middle East. A report asked for in March 1941 was presented to the War Cabinet six months later (War Cabinet Minute 1351) and this revealed that a three-ton army van, for example, cost £155 Australian on deck and £242 below. Explanations included the contention that the rates were the same as those for shipments to the United Kingdom, and the O.S.R.A. stated that rates to the Middle East had "never been less than those to the United Kingdom even in pre-war days".

The Cabinet directed its overseas business and financial representative (S. J. McGibbon) to take up with the United Kingdom Government the question of a reduction, with retrospective effect; he was instructed to make a strong representation of the Australian case.

organise a scheme with a reasonably clear definition of maximum financial risks.

The total value of the inter-state ships operated by companies members of the Associated Steamship Owners and excluding requisitioned vessels, is approximately £4,900,000. There are altogether 56 vessels of which one is valued at £520,000, one at £375,000, one at £256,000 and three at varying values between £200,000 and £225,000. There are six at values between £150,000 and £175,000 and five at values between £100,000 and £150,000. Of the remaining 39 vessels, 26 are valued at less than £50,000, nine at between £50,000 and £75,000, and four at between £75,000 and £100,000. Nearly half the number of vessels have a value of less than £50,000 and over 75 per cent of the total are valued at less than £150,000.¹

These figures meant that if the three most expensive ships were omitted the risk on any one vessel would be less than £250,000 and there were only three other vessels for which the risk would be above £175,000. In the then state of the war, therefore, a local scheme would not be exposed to the risk of crippling financial loss.

It was also contemplated that the scheme might extend beyond insurance of hulls, which was the primary source of price control interest, to cargoes. Insurance of cargoes was undertaken through the branches in Australia of insurance companies with head offices in London, and the rates charged were fixed in London, then predominantly at the rate 10s per cent per voyage, which was regarded as higher than the rate appropriate for risks on the Australian coast.

If the arguments were accepted, then action to bring a scheme into being by the end of February 1941 appeared desirable, since most of the current quarterly insurance contracts would be due for renewal at the beginning of March. The full Cabinet on 7th February approved arrangements "by the Commonwealth Government of a scheme for war risk insurance on hulls and machinery of vessels on the Australian coast and trading in Australian waters", subject to discussion between the Treasury, and the Departments of Commerce, and Trade and Customs. The outcome was approval of recommendations made ten days later:

- (a) the scheme to be administered by the Treasury;
- (b) that T. S. Douglas,² President of Federal Council of Marine Underwriters of Australia be appointed as an adviser in the Treasury on war risks insurance;
- (c) that a War Risks Insurance Board be appointed consisting of the Chairman of the Shipping Control Board, a representative of the Treasury, a representative of the Prices Branch of Trade and Customs, and the adviser on war risks insurance mentioned in (b); the Chairman of the Shipping Control Board to be chairman;
- (d) that duties of the board should be—
 - (i) to fix premiums and the period of insurance, the risks to be covered and the valuation of ships; and

¹ "Shipping Freights and War Risk Insurance", memorandum dated 21 Nov 1940 attached to full Cabinet Agenda 503.

² T. S. Douglas. Member Federal Council Marine Underwriters of Aust 1917-45, President 1923-26 and in four subsequent years. Member C'wealth Marine War Risks Insurance Bd 1941-46. Died 13 Jun 1948.

- (ii) to report to the Government upon the desirability of the Government assuming responsibility for war risks insurance on cargoes.³

The proposals were incorporated in Marine War Risks Insurance Regulations which established a board of four to administer the scheme.⁴ At this stage the scheme was confined to hulls and was not extended to cargoes until 1942. To avoid setting up an elaborate new organisation the Commonwealth and New South Wales Governments agreed that the administrative work of insuring the vessels under the scheme should be carried out by the Government Insurance Office of New South Wales, an arrangement which continued until 31st March 1943 when the Commonwealth established its own office in view of the operation of the complete cargo scheme from the middle of 1942. From the beginning all the larger coastal vessels were insured with the board and when risks in the Pacific grew worse many smaller vessels, previously not insured, came into the scheme. Initially the Commonwealth provided cover for 150 vessels valued at about £9,000,000 and was able to operate immediately by guaranteeing that for the initial three months its rates would not exceed those charged on policies then expiring. Eventually, as the details were worked out, and the board acquired experience, it settled upon a premium rate of 12s 6d per cent per month for three months policies with an intention of avoiding, if possible, increases of premium. This was in fact possible, the rate being maintained until March 1944 after which it was steadily reduced. This policy meant that for some time the Commonwealth was carrying losses, but the final outcome by the end of the war was that these were covered by total income.

One major decision of policy went to the full Cabinet in April 1941—that of reinsurance. The case for following this accepted practice was that the early sinking of a large vessel, for example, would be an embarrassment to the fund and the Commonwealth would have to carry any deficiency. On the other hand, many of the companies with which reinsurance might be effected were offshoots of the oversea companies, so that to that extent the principle of an Australian scheme would be cancelled. The Treasury took the view that there was a fair chance of making a profit, and reinsurance would have the effect of transferring these profits to private enterprise. Moreover reinsurance might well become very expensive, and, as the primary purpose of the scheme was to restrain the increase in freights, the Government should be prepared to face possible loss. The decision was in accordance with the Treasury view that the Government should take the risk and re-examine the possibility of reinsurance within Australia if these risks proved uncomfortably large. In fact no reinsurance was done.

³ Full Cabinet Agendum 573, 17 Feb 1941.

⁴ Statutory Rules 1941, No. 47, 27 Feb. Those appointed to the board were: Sir Owen Dixon (Shipping Control Board) chairman, W. C. Balmford (Commonwealth Actuary), Professor D. B. Copland (Prices Commissioner), T. S. Douglas (President, Council of Marine Underwriters Association of Aust.). Mr. Justice T. S. Clyne replaced Sir Owen Dixon in 1942 after the latter was appointed Australian Minister to U.S.A.

The chairman of the Shipping Control Board now found himself chairman of the Marine War Risks Insurance Board. A further responsibility next emerged in the matter of charters which, with the institution of control and the likelihood of extensive local requisitioning and charter, required decisions as to rates to be paid for the charter of ships, matters which had not so far unduly worried the Australian Government. It will be recalled that the Australian Government had agreed to use British machinery so as to avoid pushing up rates by competition, and by and large they had been content to accept the rates demanded for such oversea tonnage as they had been able to obtain.

The prospect of extensive government chartering or requisitioning of local ships for commercial purposes meant that for the first time the Government had the opportunity to determine a policy of hire rates for ships, and was compelled to do so. Requisitioning for the navy had been in a class apart and the Admiralty payments were not ungenerous. In the search for oversea ships to charter the Government's position had simply been that unless it paid the rates demanded it did not get the ships. Moreover, the number of ships likely to be concerned was now very much greater than had ever been considered before for local commercial use. In addition to the problem of relating rates of hire for ships taken over by the navy and charter rates for ships used commercially, there was emerging a need for some general policy as to the return to be allowed to owners of property of all kinds taken over, particularly aircraft.

An inter-departmental committee in September 1940 had reported on the rates to be paid for ships requisitioned for the navy and aircraft chartered for war purposes. The report established a general basis for compensation which "provided for the return on the capital value of the asset at the time of hiring or chartering to be assessed at a rate of one per cent additional to the market rate of return on government securities".⁵ The navy had sought the adoption of Admiralty procedure which involved higher rates, but the War Cabinet took the view that "notwithstanding the advantage of uniformity of practice by the United Kingdom and the Commonwealth . . . it was more desirable that there should be uniformity of practice by the Commonwealth in its treatment of all owners of property"; that is, payment for ships chartered should be on the same basis as that for aircraft. The inter-departmental committee was to be reconstituted as a central authority on rates and return on requisitioned property, with a chairman from the Department of Defence Coordination (with which department the committee was associated), and representatives of each of the Treasury, the Attorney-General's Department, and the Departments of Navy, Army, Air, and Civil Aviation.

Thus matters stood when shipping control was inaugurated and the requisitioning of local tonnage by the Australian Government for commercial purposes was known to be imminent. The Department of Commerce as the centre of shipping administration pressed upon the Cabinet

⁵ War Cabinet Minute 530, 24 Sep 1940.

the difficulties inherent in applying the arrangements made in September to the hire of ships for commercial purposes. The navy and the Department of Commerce had not been members of the committee, although the advice of the navy had been considered; the committee had not directed its attention to the problems involved in requisitioning coastal ships for commercial running under the management of their owners. Nevertheless the Cabinet had agreed that other government departments should be required to conform to the principles recommended by the departmental committee, which the navy had found great difficulty in applying to navy requisitioning, and much dissatisfaction had emerged in shipping circles.⁶

The solution adopted was to refer to the chairman of the Shipping Control Board, Sir Owen Dixon, the task of investigating the terms and conditions under which coastal ships should be requisitioned, and the outcome was a comprehensive memorandum which included a standard time charter party to be used in all cases and set out daily rates of hire for a large number of ships individually.⁷ Under the standard charter party it was the obligation of the owners to maintain the ships and their gear and to meet all running costs, except that the Commonwealth was to refund the cost of additional pay to crew above the rates ruling at 1st July 1941. The shipping company concerned was to be paid, as a management fee, commission at the rate of six per cent on the freights earned by a ship, and rates were prescribed for supervising, hire of gear and the like, apart from the daily charter rate. That rate, computed separately for each ship, was based upon an investigation in detail of running expenses, a five per cent per annum depreciation allowance and a four per cent per annum return on the capital value of the ship.

The full Cabinet approved of these proposals although there emerged immediately a short-term difficulty arising from the effect of the introduction of these rates on price control policy. It had been the practice of the Prices Commissioner to determine percentage increases of freights as costs rose from time to time. There had been three determinations: that of October 1939 for 10 per cent increase, that of October 1940 for a further 5 per cent, and that of April 1941 for further increases up to a maximum of 22½ per cent above pre-war levels (17½ per cent for Western Australia and Tasmania). The Prices Commissioner met the problem of realised profits exceeding or falling short of the standard profit margins determined at the beginning of the war by modifying the particular freight rates determined. Had freight rates remained under the Prices Branch a number of shipping companies which had experienced losses or profits less than the standard margin would have been compensated at the next determination. The rates determined by Sir Owen Dixon while otherwise endorsed by the

⁶ In addition to the general basis of compensation providing the return of 1 per cent additional to the then market rate of return on government securities "the following annual payments would be made—

An amount of 1 per cent on the difference between the initial cost and the depreciated value of the asset at the time of charter. Reasonable allowance for depreciation, obsolescence, repairs and other reasonable expenses incurred by the owner". (Full Cabinet Agendum 584, 19 Feb 1941.)

⁷ This was included as the schedule to Shipping Requisitioning Regulations, Statutory Rules 1941, No. 230, 18 Sep.

Prices Commissioner did not include provision for these accrued losses. The solution was a compromise worked out between the two authorities for an addition to the charter rates averaging £2 a day for periods which the two authorities agreed would provide fair compensation.

Meanwhile the navy fell into line with the Naval Charter Rates Regulations.⁸ For certain vessels for which charter rates had been established by the chairman of the Shipping Control Board but which had been requisitioned for naval purposes, the navy adopted the charter rates so fixed.⁹ For all other vessels which had been or might be requisitioned for naval purposes the Naval Charter Rates Board was established to determine charter rates and other conditions.

THE MACHINERY OF SHIPPING CONTROL

While the chairman of the Shipping Control Board was engaged personally in these investigations his organisation was taking shape. This coincided with the extensive development of requisitioning in which it was planned that requisitioned ships should be operated by their owners as agents for the board. Consequently the plan of executive machinery was directed towards the provision of committees on which representatives of the shipping companies and technical experts could meet to coordinate policy and management. In July 1941, on the same day as the first requisition recommendations were made,¹ a Shipping Management Committee was established consisting of representatives of the Shipping Control Board and of the principal shipping companies whose vessels were to be requisitioned.² It was concerned with the management, direction and control of requisitioned ships, the making of recommendations in respect of freight rates, freight contracts, wharfage and harbour facilities and the like. With it was associated a Central Traffic Committee modelled upon a similar body, which had long been operated by the Associated Steamship Owners, which met daily to collate information concerning cargoes, availability of tonnage, allocation of ships and similar matters; it was assisted in due course by branch Traffic Committees in each State and sub-committees at many smaller ports. The model of organisation already in the industry was followed in establishing a similar but separate Tasmanian

⁸ Statutory Rules 1941, No. 232, 17 Sep.

⁹ Full Cabinet Agendum 710, 7 Aug 1941, had recommended the adoption of Dixon's rates for the five interstate ships requisitioned by the navy and the Minister for Commerce had added "I understand that the Navy Department desires to be associated with this recommendation".

¹ On 1 May 1941 (War Cabinet Minute 1014) the War Cabinet agreed that in pursuance of the powers conferred on him under the National Security Regulations, the Minister for Commerce should decide to requisition all Australian coastal ships, if that course appeared necessary after consultation with Sir Owen Dixon.

Page referred to Dixon's examination of principles and rate of compensation to govern the requisitioning of Australian coastal tonnage, and said that "while the task of determining the actual rate of charter is proving rather longer than was expected, the work is approaching completion".

Britain, he said, had requisitioned shipping before she commenced to examine the terms of charter. In Australia the general conditions to govern the chartering of ships were well worked out; only the rate was not yet determined.

In accordance with the previous decision of the full Cabinet the actual rate of charter money would be submitted to Cabinet before being decided.

² Members were: Sir Owen Dixon, J. L. Webb, J. F. Brame (Shipping Control Board), D. York Syme (Melbourne Steamship Co.), J. C. McCann (Australian Steamships Pty Ltd), F. W. Radford (non-associated steamship owners), S. T. Edwards (McIlwraith McEachern Ltd), F. Bridgman (Adelaide Steamship Co. Ltd), and D. G. F. Mackay (A.U.S.N. Co. Ltd).

Traffic Committee in view of the special problems of that trade. All three committees were subject to the direction of the Shipping Control Board and, on important matters, to confirmation of their decisions by the board.

Requisitioning began in July 1941 and sixty-three vessels had been taken over by 7th August.³ At the same time the Shipping Control Board drew attention to the probable exception from requisitioning of ships engaged in special trades such as those engaged in the transport of ironstone and coal, and those in the Eyre Peninsula and Spencer Gulf trades in South Australia, and the north and south coast trades in New South Wales. In the same class were the Colonial Sugar Refining Company's ships used for the

VESSELS REQUISITIONED BY SHIPPING CONTROL BOARD

Date	Interstate steamers	Intrastate steamers	Trawlers, Launches, Ketches & Small Craft
1941			
Jul-Dec	77	—	—
1942			
Dec-Jun	24	1	37
Jul-Dec	3	1	47
1943			
Jan-Jun	7	5	3
Jul-Dec	1	—	1
1944			
Jan-Jun	—	9	—
Jul-Dec	1	2	—
1945			
Jan-Jun	1	1	—
Jul-Dec	2	—	—
Total	116	19	88

transport of molasses and sugar.⁴ Their special treatment, pointing to the peculiar conditions of shipping in those fields, was itself one of the strongest reasons for establishing an authority which could examine the withdrawal of any ships from their normal activities.⁵

One other piece of machinery, the Salvage Board, was created at this time in association with the Shipping Control Board. This originated in a conference of the navy, Department of Commerce, and shipping interests

³ Full Cabinet Minute 710. Excluding ships requisitioned for a voyage only, the navy took over seven ships in 1941 which are not included in the numbers above.

⁴ Very early this point had been established. In considering the production of power alcohol on 14 Dec 1939 the full Cabinet was told (Agendum 262) that the C.S.R. Co had been informed by the navy that its ships were likely to be requisitioned for "the transport of water to Singapore". At the time the argument was put forward that the tankers of another company could be procured for this purpose and readily adapted, while to convert the Refining Company's vessels would be costly.

The Acting Minister for Supply and Development recommended that the company be given an assurance "bearing in mind the vital nature of the trade" that the vessels would not be requisitioned. No decision was recorded on requisitioning. (The associated problems of molasses supply are considered elsewhere in connection with the production of power alcohol.)

⁵ Even so special industries protested. In July a protest from the president of the Association of Country Sawmillers at navy requisitioning of *Kianga* and *Allenwood* was referred to a Cabinet committee of Navy, Commerce and Transport.

in October 1941, although the Salvage Board did not come formally into being until March 1942. It was charged with the duties of organising facilities and gear for the salvage of ships on or near the Australian coast, and in the course of the war, particularly as casualties multiplied in 1942 and 1943, organised the salvage of many vessels.

While the administrative organisation for the control of coastal shipping was proceeding the shortage of oversea tonnage continued.⁶ The decision to build ships clearly did not justify discarding charter as a provisional solution. The Department of Commerce continued the search for ships, maintaining a close liaison with the British ministry through the Australian High Commissioner, and working side by side not only with the Wheat Board but also with the British Phosphate Commission, whose ships operated in the Pacific and whose problems had much in common with those of the Commonwealth. In fact the produce carried by the commission's ships was of vital importance to the Department of Commerce itself, and at one remove the commission's shipping problems were also part of those of the department.

As has been seen, the voyages of such neutral ships as were available were being more and more restricted, and their charter rates moved steadily upward despite British efforts to peg them at a reasonable figure. Negotiations with neutral, Allied or refugee governments for the use of ships were beyond the influence of Australia, but since these efforts were the source from which ships could be chartered the negotiations were an important, if unpredictable, factor in Australian efforts.

When the question of chartering neutral ships first came up the Economic Cabinet in mid-February 1940 had decided that six should be chartered and that a sub-committee of the Treasury, the Departments of Supply, and of Commerce, and the Director of Economic Coordination should have power to act. Under these arrangements particulars were furnished to the committee, any specific charters being submitted to Fisk.⁷ The most important link between the British ministry (as the source of tonnage) and the Australians was Westralian Farmers.⁸ The High Commissioner reporting to the Prime Minister on 18th January 1941 on the negotiations between Britain and the Greeks for their ships went on:

Westralian Farmers have in the past consulted the Ministry but I am anxious to put them into still closer contact with status as agents of your Commonwealth instrumentality. This is most important as the Ministry by reason of its control is

⁶ There were difficulties outside the civilian sphere. On 9th April 1941 the War Cabinet was told that in the problem of getting reinforcements to the Middle East the bottleneck was not the raising of personnel "but the availability of shipping". The navy was to investigate the possibility of improved rate of despatch of reinforcements by provision of speedier shipping arrangements subject to the necessary convoys being available.

⁷ It was under these arrangements that by October 1940 four ships were operating (*Brattdal*, *Westralia*, *Astoria* and *Reynella*) and by 31 Dec 1940 the *Hermion* (chartered for 6 months), *Hav* (chartered for 6 months), *Eidsvold* (to be delivered to the Commonwealth Government in February) and *Chios* (taken over from the Wheat Board for one voyage only) had been added. In May 1941 the Commonwealth Government had 15 ships on charter and the Phosphate Commission 8 and another 8 new charters were sought.

⁸ In June 1940 it had been they who suggested to the High Commissioner that Australia should seek representation on the Committee of Allocation of Inter-Allied tonnage, and the High Commissioner had thought this proposal had merits. The Department of Commerce also supported the view and formal submission for representation was made to the High Commissioner on 21 June 1940.

able to exert pressure on allied and neutral tonnages which is to our advantage financially and otherwise. They will of course act only in capacity of agents of Commonwealth Chartering Board and Australian Wheat Board.

This liaison the Prime Minister described as "most helpful".

The identification of purpose with Britain was further instanced in March when, following discussions between the British ministry, Canada, South Africa, Australia, New Zealand and India with a view to evolving a scheme to bring under control neutral tonnage which was running free and for which ruinous rates of charter were being charged, the British Government sought the good offices of the Australians in dissuading the Phosphate Commission from accepting the charter of *Atlantic* at \$9 a ton, "a rate which was considered grossly excessive by the Ministry".⁹ On 23rd April 1941 the High Commissioner reported that the Americans had been asked to join in measures to check competition, and the High Commissioner himself held off in negotiations for at least one Norwegian ship because he felt the figure was too high. The negotiations were on behalf of the Phosphate Commission as well as the Commonwealth.¹

At the end of May the High Commissioner could report renewal of three Greek charters on the condition that the ships continued in the same employment; one Greek ship had been obtained for the Phosphate Commission, all four at the rate of \$7.50. In addition he reported that the United States was enacting legislation to enable the administration to exercise an effective check on charters and to stabilise charter rates. By August, after negotiations between the British Ministry of War Transport and the United States Maritime Commission, that Commission had announced a detailed schedule of rates for time charters which it was proposed should be observed by the United States and Empire countries.

Greece, in whose ships Australia was particularly interested for charter purposes, had ceased to be neutral in October 1940, and in April 1941 had been occupied by the enemy. The British Ministry of War Transport was able on 20th May to reach agreement with the Greek Government under which all ships over 4,000 tons with the exception of thirty were chartered to the ministry for the duration of the war. Of the 30 excepted vessels 10 were to be maintained on the United States-Middle East run, and the remaining 20 were to trade free, 10 being already chartered to the Swiss Government and the others free to earn dollars in safe trades approved by the Anglo-Greek Allocation Committee in London. The Greeks did not consider the Middle East trade safe but the ministry hoped to persuade them to allow their ships to proceed as far as Suez, the plan being to use them in Dominions trade at a controlled rate of \$7.50. This growing identity of action with the United Kingdom, as well as the developing assurance in Australia's attitude to oversea negotiations, had a natural outcome in the establishment of a central chartering organisation for the Department of Commerce, the Wheat Board and the Phosphate

⁹ Message from High Commissioner 26 Mar 1941.

¹ Australia supported these efforts but "felt that possibly ships were being forced thereby into trades outside the Empire" (3 Apr 1941).

Commission. The Commonwealth Government Ships Chartering Committee included the general manager of the Phosphate Commission which agreed that the committee should handle the charter of its ships.² The committee's functions were to arrange the chartering of vessels to cover the needs of all three bodies and to allocate the vessels between the Commonwealth Government, the Wheat Board and the Phosphate Commission as well as arranging voyages to meet their respective needs. The Wheat Board was to continue to manage the ships, while Westralian Farmers continued to act as London representatives; established shipping companies acted as agents for the Commonwealth on a commission basis. Including ships already operating, the vessels under the Committee up to the end of 1941 are shown in the accompanying list.

Vessel	From whom originally chartered or obtained	Date of commencing first charter
<i>Brattdal</i>	Westralian Farmers	2 Mar 1940
<i>Astoria</i>	Commonwealth	15 Apr 1940
<i>Westralia</i>	Westralian Farmers	22 July 1940
<i>Reynella</i>	Commonwealth	31 July 1940
<i>Chios</i>	Greek owners	25 Oct 1940
<i>Hav</i>	Norwegian owners	27 Oct 1940
<i>G. S. Livanos</i>	Greek owners	29 Dec 1940
<i>G. M. Livanos</i>	Greek owners	1 Jan 1941
<i>Acadia</i>	Norwegian owners	23 Jan 1941
<i>Zvir</i>	Yugoslav owners	10 Mar 1941
<i>Recina</i>	Yugoslav owners	2 Apr 1941
<i>Anatina</i>	Norwegian owners	26 Apr 1941
<i>Aspasia Nomikos</i>	Greek owners	7 May 1941
<i>Herstein</i>	Norwegian owners	15 May 1941
<i>Theofano Livanos</i>	Greek owners	10 May 1941
<i>Atlantic</i>	Panamanian owners	1 Jun 1941
<i>Guatemala</i>	Panamanian owners	10 Jun 1941
<i>Hermion</i>	Norwegian owners	12 Jun 1941
<i>Chloe</i>	Greek owners	7 July 1941
<i>Nordnes</i>	Norwegian owners	10 July 1941
<i>Anna Odland</i>	Norwegian owners	16 July 1941
<i>Carola</i>	Panamanian owners	19 Aug 1941
<i>Nortun</i>	Panamanian owners	4 Oct 1941
<i>Elisavet</i>	Greek owners	7 Nov 1941
<i>Lidvard</i>	Norwegian owners	8 Nov 1941
<i>Vito</i>	Norwegian owners	17 Dec 1941
<i>Evi Livanos</i>	Greek owners	24 Dec 1941

THE END OF 1941

Australia's modest success in securing ships was attained in the face of developments in shipping overseas which not only made it difficult for her

² Established by ministerial order, July 1941. It consisted of J. F. Murphy (Secty. Dept of Commerce) chairman, H. H. Gaze (British Phosphate Commission), J. Thomson (Aust Wheat Bd). Sir Thomas Gordon replaced J. F. Murphy when the committee went to the Dept of Supply and Shipping in October 1942.

to secure ships, but underlined the fact that Australian shipping was necessarily bound up with the shipping services of the Allies. Commenting on the shipping position in the light of his visit abroad the Prime Minister told the War Cabinet it was "... entirely on account of shipping difficulties

MERCHANT SHIPPING UNDER THE BRITISH FLAG

Summary of gains and losses of tonnage: Vessels of 1,600 gross tons and over.

Thousand gross tons	Gains	Losses	Net gain (+) or loss (-)
1939			
September	50	149	-99
4th Quarter	347	312	+35
1940			
1st Quarter	295	335	-40
2nd Quarter	901	473	+428
3rd Quarter	717	892	-175
4th Quarter	467	956	-489
1941			
1st Quarter	558	992	-434
2nd Quarter	429	1,227	-798
3rd Qtr	606	505	+101
4th Qtr	503	355	+148
1942			
1st Quarter	347	855	-508

Source: *Statistical Digest of the War* (London, 1951)

OVERSEA SHIPPING: VESSELS ENTERED, AUSTRALIA (Steam, Motor and Sailing)

Year	Vessels	Net Tons
1937-38	1,905	7,128,404
1938-39	1,876	6,710,999
1939-40	1,674	6,465,665
1940-41	1,316	5,378,921
1941-42	1,276	5,174,118

Source: *Commonwealth Year Book*

that it was necessary to cut down imports in the United Kingdom from Australia". His remarks were directed primarily to the position of export industries, the effect on which he saw as "disastrous". In his view, however, there was

no hope of improvement except by combined pressure on the United States of America to give as much help as possible as quickly as possible . . . and every effort to improve shipping repairs in the United Kingdom and to cut out delays in the turn round.

In June the reports of losses, in the Gulf of Mexico and the Caribbean, of ships carrying war supplies to Australia, raised the question of transfer of shipping on the Australian run to the west coast of the United States and Canada. Even there, however, in the following months the question which was being actively canvassed was the removal from west coast trades of United Kingdom ships to be used on more dangerous runs for which the neutrals were not available, with a partial replacement by United States ships. In the middle months of the year 30,000 tons of nitrates from Chile, primarily for munitions, were only shipped with considerable difficulty, while an equal amount of cargo of essential classes was accumulating in Australia for India.

Nearer home there had been losses from mines or raiders as early as August 1940;³ convoys had been instituted for overseas vessels from the beginning of the war; the latter part of 1941 saw the preparation of plans for coastal convoys although these were not begun until 1942.

If there were any lingering beliefs that Australia by building or chartering could organise herself immunity from the shipping losses of the war, these events must have dispelled them. It no longer made sense to seek more ships for exclusively Australian use. From now on the problem was—as, of course, it had been in some degree from the beginning—that of making the best use of what ships were available, with a constant and continuing threat that what was available might be sharply curtailed. From December with the entry of Japan into the war the threat to Australian overseas communications was immediate and direct.

³ In 1940 raiders sank the following vessels in or near Australian waters: 16 Aug *Notou* (2,489 tons), 20 Aug *Turakina* (8,706 tons), 20 Nov *Maimoa* (8,011 tons), 21 Nov *Port Brisbane* (8,739 tons), 26 Nov *Rangitane* (16,712 tons), 6 Dec *Triona* (4,413 tons), 7 Dec *Vinni* (5,181 tons), 8 Dec *Triadic* (6,378 tons), *Triaster* (6,032 tons), *Komata* (3,900 tons).

In the same year vessels lost on the Australian coast from mines laid by the raiders were: 7 Nov *Cambridge* (10,846 tons), 8 Nov *City of Rayville* (5,883 tons), 3 Dec *Nimbin* (1,052 tons).

Thereafter there were no attacks until November 1941 when H.M.A.S. *Sydney* was lost. For details of enemy activity in Australian waters see the navy and air force volumes in this history.

CHAPTER 6

MEETING THE COST

THE various preparations for an emergency, in the 'thirties, which have already been discussed found their financial reflection in a modest but steady rise in the level of defence expenditure. In the five years immediately preceding the outbreak of war annual expenditure was:

1934-35	.	.	.	£5,500,056
1935-36	.	.	.	7,010,120
1936-37	.	.	.	8,044,783
1937-38	.	.	.	9,771,783
1938-39	.	.	.	14,574,886

This scale of expenditure and its rate of increase appeared at the time a very serious matter. The Treasurer, Mr Casey, introducing the 1938-39 Budget, described the estimated defence expenditure of £16,800,000 as "formidable",¹ while the planned figures were described by one commentator as "staggering".² Judged by certain tests the expenditure looked very modest indeed: it was an extremely small proportion of the national income and was far lower than expenditure of European countries. Moreover these expenditures and their increase were planned in a period of substantial unemployment, and might well be regarded as replacing other forms of public expenditure to promote rising employment. Nevertheless it is important to bear in mind that to the men who planned them the expenditures did appear very serious indeed.

Apart from the size of pre-war spending plans the important things for the present purpose were the failure in most years to spend to the full the amount appropriated, and the heavy reliance on loans. Thus in 1937-38 estimated defence expenditure was £11,600,000, but actual expenditure reached only £9,800,000. In the last pre-war year estimates were £16,800,000, expenditure £14,600,000. As will be seen when discussing wartime experience, the gap between estimate and expenditure cannot be taken at face value as a measure of the extent performance was at fault, but it does point to the early manifestation of what was to be one of the serious difficulties of the first two years of war: the slowness and incompleteness with which plans for equipping and supplying the Services could be translated by administrative action into reality.

Reliance on loans was in keeping with traditional Australian policy and in any case, with substantial unemployment, might well have been regarded as proper policy in the circumstances. Of the 1937-38 expenditure it was planned that £2,500,000 should come from loans, and of that for 1938-39 £4,000,000. Even this scale of borrowing for defence was regarded with some misgivings, particularly by the Commonwealth Bank. The Bank felt obliged in 1938 to resist a request to underwrite a public

¹ *Commonwealth Debates*, Vol 157, p. 19.

² G. Packer, "A Note on Defence Expenditure", *Economic Record*, Dec 1938.

loan of £10,500,000 (including £4,000,000 for defence), proposing as an alternative £10,000,000. That £500,000 should be treated as a matter for serious argument is a good index of the way the scale of defence finance was viewed. By early 1939 the Bank was expressing increasing concern about the maintenance of the scale of borrowing of State Governments for ordinary works programmes in the face of the rise in Commonwealth defence borrowing, although this issue was not to come to a head until 1940.

THE FIRST WAR BUDGET, SEPTEMBER 1939

In spirit the first war budget is more properly regarded as the last of the pre-war budgets. It was "a budget for preparation and not a budget for conflict",³ despite its having been prepared in the closing days of peace. The Treasurer said apologetically: "It is true that it was prepared in face of a vast defence expenditure but the fact remains that, having been prepared in a time of peace it is being delivered in a time of war, and that accordingly . . . it must be regarded as having an extremely tentative character."⁴ Early revision was foreshadowed.

Perhaps because of its origin, the budget was accompanied by little in the way of statement of principle. The Treasurer spoke of "a just balance between the taxpayer on the one hand and the general credit resources of the country on the other—between the man who will pay currently and the man who will pay in the future".⁵ This was no more than a hazy principle of equity and amounted to nothing but a reason for combining taxes and loans. The Treasurer went on to deprecate reliance on "the credit of the community", pointing out that "at whatever earlier point the limit of central bank action may be reached, it is undoubtedly reached when the resources of manpower, material and equipment are as fully engaged as practicable".⁶ Except for these comments the budget disclosed no clear financial doctrine, and the comments were addressed to the more unorthodox members of the Opposition, rather than being related to the economic circumstances of the time when full employment was a distant possibility.

Defence (including supply) was estimated to involve £33,137,000 for 1939-40—although the Treasurer added "even before I have spoken the words I know that it has passed the £34,000,000 mark".⁷ This it was proposed to finance thus:

Current revenue	£12,012,000
Surplus revenue 1938-39	627,000
Trust funds	1,426,000
Loans	19,072,000

³ *Commonwealth Debates*, Vol. 161, p. 401, 12 Sep.

⁴ *Commonwealth Debates*, Vol. 161, p. 319, 8 Sep.

⁵ *Commonwealth Debates*, Vol. 161, p. 323.

⁶ *Commonwealth Debates*, Vol. 161, p. 325.

⁷ *Commonwealth Debates*, Vol. 161, p. 326.

Other loan expenditure proposed was £2,000,000 for postal works and £2,000,000 for farmers' debt adjustment, making a total loan programme of £23,072,000.

Increases in expenditure from revenue—other than for defence—brought the total budget commitment (excluding loans) to £101,916,000; forecasted revenue, at existing rates of taxation, came to £96,030,000, leaving a "gap of £5,886,000 to be filled". For this the Government planned tax increases:

Income Tax	£2,360,000
Sales Tax	1,420,000
Customs and Excise	2,130,000
	<hr/>
	5,910,000

Personal income taxes were increased by a flat 10 per cent. Company tax was increased by 6d from 1s 1.8d in the £ and by abolishing the tax rebate to "foreign" holding companies drawing dividends in Australia. Sales tax was raised from 5 per cent to 6 per cent, the extensive list of exemptions being left untouched. Customs and excise rates were increased on petrol, on lubricating and fuel oils and on spirits.

These proposals were amended within a few days. Company tax was raised to 2s in the £ (estimated to increase yield by £1,000,000) and a special tax was proposed on the sale of gold. The latter proposal was prompted by the sharp rise in the price of gold. The plan was that 75 per cent of the amount by which the price of gold exceeded £9 Australian a fine ounce should be taken in tax. This at once aroused the hostility of all Western Australian members,⁸ while the Labour Opposition, as well as objecting to singling out one form of war profit, deplored the effect on sliding scale wage arrangements which gave miners bonuses for increased gold prices. The tax failed to pass the Senate and was replaced by an excise duty of 50 per cent of the excess price, with an exemption of twenty-five ounces a year for prospectors.

These relatively moderate increases in taxation were the obverse of the large increase in the relative proportion of war expenditure which it was now proposed to finance by way of loans. Whereas in the immediate pre-war years roughly a quarter of defence spending was derived from loans, the proportion in this budget had been increased to more than half. Except in this the budget did not disclose any departure in structure from the other peacetime budgets.

Following the September budget formal provision was made for control of private investment by Capital Issues Regulations,⁹ inspired in part by the desire to follow British example and with memories of action along the same lines in the war of 1914-18, and in part by a recognition that in time reliance on loans would involve a serious competition from private

⁸ Gold mined at Kalgoorlie and elsewhere in Western Australia represented £10,000,000 of Australia's production of £14,000,000 in 1938.

⁹ Statutory Rules 1939, No. 117, 13 Oct.

investment unless interest rates were to be greatly increased, government policy being that they should be held down.

Important discussion, however, centred on another source of probable competition in the loan market, that from State governments and semi-governmental bodies,¹ a discussion complicated by the continuing fear of unemployment. In the Financial and Economic Committee, before the next budget, practically the only discussion of public finance was directed towards the importance of pressing on with defence works in order to absorb the unemployed. The Commonwealth Bank, while it continued to foreshadow the necessity to restrict borrowing for other than defence purposes, gave special temporary assistance to various semi-governmental bodies explicitly for unemployment relief. At the first wartime meeting of the Loan Council in November 1939 there was discussion of the probable need for the States to restrict their loan programmes. But the States were far from responsive and the Commonwealth was particularly vulnerable to the argument that, until defence expenditure increased considerably, any let-up in State activities would merely add to the amount of unemployment. The issue was accordingly not pressed and the report of Mr Menzies' statement to the Council was a fair summary of the attitude of the Commonwealth:

... the borrowing programme with which the Loan Council is confronted, together with that facing the Commonwealth Government in regard to defence and war requirements, represents a formidable task. He indicated that he thought it would be possible to finance ordinary requirements up to 30th June next, but he could see little prospect of a repetition of the same programme next year. He urged the undesirability of a sudden reduction of State programmes next year and suggested the advisability of a gradual tapering off of the State works programmes during the remainder of the financial year to coincide with the gradual increase of defence expenditure.²

This attitude was partly tenderness for the States, partly recognition of the existence of an already high level of unemployment and the risk that this would rise before Federal war expenditure increased enough to offset it. Soon after the council meeting, the Commonwealth announced that it would spend, through the agency of the States, £2,000,000 on defence works of low priority to relieve unemployment. The policy was thus explained:³

Some recession in the employment position has been apparent recently and the Government is of the opinion that it is desirable to bridge the gap between the present and the time when the full economic effect of the rapidly-growing defence expenditure will be felt. There is a large number of works which are not of sufficient importance as defence measures to be included in the normal programme of defence expenditure. The sum of £2,000,000 which the Government is making available in order to undertake these works, will be expended upon projects which are of such a nature as to provide for the greatest degree of employment of unskilled labour. It was decided that this amount would be distributed over the various States on a basis which would mainly take into account three factors, namely the degree of

¹ That is, municipal and shire councils and statutory corporations.

² Minutes of Loan Council Meeting, 9-10 Nov 1939.

³ *Commonwealth Debates*, Vol. 162, p. 1268, 17 Nov.

unemployment in the various States, the value of the works for defence purposes, and the population of the States. The Commonwealth officers have been collaborating with the appropriate State authorities with a view to the selection of works which could be carried out under this arrangement, and schedules have now been prepared of works which fulfil the desired purposes. The sum of £2,000,000 will be allocated as follows:—

	£
New South Wales	850,000
Victoria	470,000
Queensland	280,000
South Australia	175,000
Western Australia	125,000
Tasmania	60,000
Amount reserved to meet unfore- seen contingencies	40,000
	<hr/> 2,000,000 <hr/>

To some extent the distribution represented an attempt to pacify States in which, of necessity, direct expenditure on the war was and would be low. Important provisions in the New South Wales arrangement were that “the money to be advanced was to be in no way a contribution to the budgetary position of the State; secondly it was in no way to diminish the amount to be expended by the State in the relief of unemployment”.⁴ It was plausibly alleged, and equally plausibly denied, that the money was in fact used in substitution for State unemployment relief. The circumstances were such that a precise check is impossible, although some measure of such substitution does appear to have occurred; the point is of little importance in itself but does emphasise the prominence which post-depression attitudes to unemployment took in all discussions of early wartime policy.

REVISED BUDGET, NOVEMBER 1939

By the end of November 1939 the Government was able to make a better guess at war expenditure and a revised Budget was presented by Mr Spender⁵ as Acting Treasurer. It was the occasion for a clearer and more extended statement of principle, reflecting the degree to which Spender was receptive to the ideas of some of the more academically trained temporary staff recently recruited to the department, and foreshadowing his disposition to seek advice from outside the established Treasury organisation.

It is necessary for us to consider this problem in terms of the resources which will be required both for the war effort and for the civil needs of the people. Only the resources now available can be used for these purposes. To see the problem as one of making the best use of resources makes it clear that the real burden of our war effort must be borne now; that it cannot by ingenious financial devices be shifted to the future. Once we recognise this fact we can concentrate our attention

⁴ *Commonwealth Debates*, Vol. 163, p. 235, 19 Apr 1940.

⁵ Hon Sir Percy Spender, KBE, MHR 1937-51; Asst Treas 1939, Treas 1940; Min for the Army 1940-41; Min for External Affairs 1949-51; Ambassador to USA since 1951. B. Sydney, 1 Oct 1897.

on securing the necessary diversion of resources from peace to war purposes with a minimum of interference with the standards of consumption we have enjoyed in the past, and on avoiding disturbance to the balance of our economy which would make the subsequent transition from war to peace more difficult.

Briefly stated the financial policy of the government is to finance the war effort by a balanced programme of taxation, borrowing from the public and borrowing from the banking system. This summary, however, does little to illuminate how that policy will be applied at any time. The balance between these three methods of finance must change from time to time and the determining factors will be mainly economic. . . .

There is no reason to believe that this dislocation [impact of war] will be more than temporary. A number of factors are working for improvement. First, the proceeds of the recent sales of export products to the United Kingdom are already coming to hand. Altogether they will amount to more than £100,000,000. Payment will probably be received sooner and will affect the banking system more quickly than normal peacetime sales. There has been, indeed, a general improvement in respect of the balance of payments. Whereas in the last two years our reserves of London funds have been substantially drawn upon, in the current year we may reasonably expect some net increase of those funds, perhaps as much as £15,000,000. This is, however, an optimistic estimate, and may be reduced if difficulties are experienced in shipping exports or if there is a very great reduction of the flow of capital into Australia. A second factor working for improvement is that Commonwealth Bank operations are continuing to give support to the banking system and to maintain economic activity. Thirdly, defence expenditure is having an increasingly stimulating effect on the economy generally. While these factors have not yet been fully reflected in the employment of our resources, their effects will continue to become more evident in the coming months.⁶

Accordingly, financial policy was set out as involving two stages—an immediate programme for financing the war during the period of dislocation, to be followed by a long-term plan relying more heavily on taxation.

Faced with the temporary dislocation in the economic system the government considered that for the time being it must avoid action likely to discourage private activity until our resources are more fully employed and our national income has been raised. Consequently the government has decided that, in distributing the cost of its war programme between taxation, public borrowing and borrowing from the banking system, it will for the time being weight the balance towards borrowing with the assistance of the banking system rather than towards taxation.

In accordance with this decision two private loans have been arranged from the banking system; the first for £10,000,000 for Commonwealth and State works and the second for £2,000,000 for special defence works low in the order of defence priority especially chosen to ease the unemployment position until the effects of defence expenditure become fully apparent.

In view of the increases of taxation imposed in September, aggregating £8,000,000, the uncertainty resulting from the outbreak of war and the recent decline of employment, the government is of the opinion that to increase taxation at the present time would merely delay the recovery of our economy, retard the full utilisation of employable labour, reduce the potential of our national income, and consequently interfere with the full prosecution of our war programme. It has been decided, therefore, not to increase further the burden of taxation for defence purposes in this financial year.

. . . When our resources are as fully employed as is practicable and our "real" national income at its peak, borrowing should not exceed the savings of the people available at any time. Any additional requirements should be drawn from taxation. . . .

⁶ *Commonwealth Debates*, Vol. 162, pp. 1851-2, 30 Nov 1939.

... as the economic recovery which has already begun gets under way, the government will necessarily transfer the emphasis in its financial policy from borrowing from the banking system first to borrowing from the public and secondly, and more particularly, to taxation. These financial measures will be supplemented by the other forms of supervision I have outlined to prevent the waste of resources and to eliminate profiteering.⁷

In form these statements of principle continued to be the basis of the Treasury approach to the financial problem for the whole period of the Menzies Government, and from one point of view the subsequent story of financial policy could be presented as a continuing failure to interpret these principles in the way they had been stated by Spender, and to apply them in practice. There was here seen a relapse from the clear recognition of finance as an instrument for mobilising real resources to the pre-war preoccupation with sums of money as such. The doctrine of conservation of resources in the sense of money was a firmly held part of Treasury theory before the war when, from its frequent appearance in the statements of a former Treasurer, Mr Casey, it was irreverently known to some academic economists as "Caseyism". Throughout 1940 and the first half of 1941 the Government found it increasingly difficult to agree on substantial increases in taxation and was unwilling to follow the Spender doctrine of elimination of borrowing from the banking system. By May 1941 when the reluctance to tax and the conclusion of a formal agreement with the banks for loans by them to the Government were central issues in the attack on the Government's financial policy, very little remained of the substance of the principles of November 1939, although the form of words was still regularly repeated.

In application to the conditions of November 1939 the main effect of the principles was that almost the whole of the large increase in planned war expenditure was to be drawn from loans. The new plan envisaged expenditure of £62,014,000 and proposed that only £1,768,000 of the increase from £33,137,000 should come from current revenue. The loan programme was raised from £19,072,000 to £46,181,000. Except for some minor customs and excise increases (on cinematograph film and locally produced petrol) the revenue increase derived from the post-budget proposals of gold tax and further company tax, and revised estimates of yield.

The first Spender budget was also notable for the announcement of three supplementary lines of financial policy. First was the control of private investment under regulations already issued to provide for the control of private investment "so as to conserve the resources required for our war effort. . . . By this supervision and control it is hoped to direct the savings of the people, first into government loans for war activity, and secondly into the development of enterprises indirectly necessary for war activity". Second was the announcement: "The Government is of the opinion that in the financing of the large war effort a low rate of interest is essential. Thus, to reduce interest rates is a definite objective of the

⁷ *Commonwealth Debates*, Vol. 162, pp. 1852 and 1854.

government's financial policy. This objective will be reached, however, as a consequence of our whole financial policy, rather than as the result of action directed solely at interest rates."⁸ Nevertheless banks had already been required to seek Treasury approval for increases in rates above the levels of 31st August.⁹ Third was the declaration that "an important part of our borrowing plan is the issuing of savings certificates to afford people of small means an opportunity to play their part".¹

The first steps for a limited control of investment ante-dated the November budget. On 5th October the *Sydney Morning Herald*, in predicting "financial control of all forms of investment in Australia", accurately summarised the Government's approach, and defined the object as being to conserve investment funds accumulating in the Commonwealth for war and other national purposes. . . . The decision to control investment has been made after a financial review which has shown that the cost of the war will have to be financed largely from loans. It is intended to borrow in Australia as much as possible of the money required and a policy of low interest rates and short term loans is likely to be adopted.

The *Herald* was astray in speaking of "control of all forms of investment", for what was being discussed was a very limited control in which the central object of attention was capital issues by companies and the more obvious alternative methods of raising long-term capital, an emphasis which explains the use of the expression "capital issues" in the development of this policy. In origin the decision to introduce such control appears to have been the not-very-well-thought-out assumption that since there had been a similar control in 1916 under the *War Precautions Act*, and England had just introduced control similar to the one she had implemented in the earlier war, it was desirable that Australia should again do so. Initially, thinking on the subject does not seem to have gone beyond the idea that the raising of loans and the avoidance of high interest rates would be facilitated by some sort of control.

At the first meeting of the Capital Issues Advisory Board,² the acting Treasurer could give the board only so general an outline of its functions that it could make very little of them. The most vivid impression which it got was of the accompanying warnings not to act in such a way as to disturb the States, and to remember constantly the problem of unemployment.³

Apart from these all that the board had before it were the regulations which had been drafted very largely under the inspiration of the 1916

⁸ *Commonwealth Debates*, Vol. 162, p. 1853.

⁹ National Security (Capital Issues) Regulations, Statutory Rules 1939, No. 149, 14 Nov.

¹ At the Loan Council meeting of 19 Jan 1940 the intention to issue was reported to the Council, but since raising of loans solely for defence purposes did not come within the scope of the Financial Agreement the matter did not need Loan Council approval, and was mentioned merely for the information of members. Issue of certificates, in denominations of £1, £5, £10 and £50 (a limit of £250 to any one holder) began in March 1940. The certificates, purchased at 16s for every £, achieved face value in seven years.

² It took some time for this title to become settled. It was described by the Financial and Economic Committee as late as December as the Investment Advisory Board, while Menzies in giving Parliament the explanation of its role called it the Capital Issues Advisory Committee. The title Board will be used here throughout to stress the contrast with the Capital Issues Advisory Committee, of a very different composition, with which the Curtin Government replaced it.

³ Extract from Minutes, 30 Oct 1939.

regulations.⁴ These provided that a company (which included profit-making society, club or association) should not, without the consent of the Treasurer, be established, increase the nominal capital of the company, or make an issue of authorised capital, or make a call on shares. Nor could any corporate or other body, excepting partnerships, issue securities or give mortgages without consent, with the very important qualification that banks were permitted without restriction to continue normal overdraft finance of business activities.

Beyond this the regulations did not go and it was very soon clear that they suffered from drafting difficulties as well as a lack of clear thought on the object to be attained. The acting Treasurer had announced the regulations with a statement that:

... the main object of the regulations was to conserve the financial and physical resources of the Australian economic system in a period during which there might be unprecedented demands on them for war purposes. The regulations formed one step in a series of measures for coordinating private and public demands on the investment market and on the physical resources of the Australian economy. During a time of war the demands of the government for defence purposes must be paramount and it was the duty of the Government to ensure that the resources of the Commonwealth were utilised in a way which would contribute to Australia's war effort in the maximum possible degree . . . not the intention of the Government to use its powers under the regulations to prevent legitimate industrial expansion in directions which were obviously necessary to keep the Australian economic machinery functioning efficiently during wartime. The government was not prepared, however, to allow unregulated issue of capital for investment fields which were relatively unimportant or for investment which might make undue calls on certain types of resources which were in short supply and which were more urgently needed for purposes closely related to the war effort.

If this is taken at face value the regulations were clearly only an imperfect beginning, and the truth seems to be that thinking had not gone beyond this general conception of limiting competition in the loan market.

There was immediate complaint from the trading banks concerning the provision about overdraft finance. Their reasonable objection was that the regulations required them to be satisfied that the overdraft was being used for expenditure which was normally financed out of current revenue and which would in the normal course soon be recouped, whereas they had no way of telling for what purpose a cheque drawn against an overdraft limit was designed. There was also a good deal of public complaint at what appeared to be, even in that unsatisfactory form, too much freedom for the banks, some of whom were seeking increase in interest rates. The banks were prepared to agree that they would not increase interest rates if they could be freed of the impossible obligations to identify the purpose to which overdrafts were put, and, as the holding down of rates, rather than restriction of lending, was regarded as the end to be achieved, this was accepted. However it was decided that to forestall adverse criticism a definite restriction should be incorporated in the new regulations.

⁴ Statutory Rules 1939, No. 117, 13 Oct. The personnel of the board at its inception was: Sir Claude Reading (chairman), Sir Walter Massy-Greene, J. B. Chifley, C. A. Norris, A. C. Lewis, J. M. Hardie, James McCann.

Another serious defect was that the regulations as formulated would apply to any capital issue however small. If insisted upon, this would have meant an intolerable burden of work as well as an unnecessary restriction. Another thorny subject was borrowing by local government bodies and statutory corporations. At the Loan Council meeting on 9th November 1939 the Commonwealth agreed to exempt from control loans to a total of £25,000 to any such body in any one year, and similarly exempt loans made by State governments to local authorities, although the Loan Council was to be kept informed of all such loans. For loans exceeding £25,000 applications were to be sent to the Commonwealth by the State Premier, with whom the Treasurer was to consult before decision was taken.

The upshot of the quick emergence of these difficulties was that, after only a month, the original regulations were replaced by a completely new set.⁵ These provided that the control of new capital raising would apply only to sums exceeding £2,500, or, for mortgages, £5,000. The agreement with the States concerning the method of dealing with State and local authority borrowings was incorporated in the regulations. The other important change concerned the banks. They were no longer required to scrutinise the purpose to which customers put advances, but the interest which they might charge was restricted to the rates operative on 31st August 1939.⁶

The status of the board was advisory. Applications were made in the first instance to the Treasury, which decided all minor cases which did not involve questions of policy. Policy issues and applications involving large sums were referred to the board, which relied for detailed investigation upon two sub-committees with headquarters in Melbourne and Sydney, that in Melbourne dealing with applications from Victoria, Tasmania, South Australia and Western Australia, and that in Sydney with applications from New South Wales and Queensland. These sub-committees were simply appropriate members of the board sitting in each of the two larger cities and consequentially where the decision was not controversial a verdict by a sub-committee was, for practical purposes, a verdict of the board. All decisions of the board were technically recommendations to the Treasurer and were reviewed by the Treasury and, in special cases, were sometimes reversed.

For the job that it was intended to do the board was an impressive and well-equipped one with wide connections in industry and finance. These connections were frequently complained of by the Labour Opposition, whose conception of the board's task was very different from that which, in fact, the board had been given. Considering that task, it is to the credit of the board that there was never any serious suggestion of bias, let alone corruption, in its handling of applications, many of which would have come from persons and businesses with whom members of

⁵ Statutory Rules 1939, No. 149, 14 Nov.

⁶ Amending regulations a few days later (Statutory Rules 1939, No. 162, 30 Nov) modified this slightly to provide that new advances should be limited to the August rates or $4\frac{1}{2}$ per cent whichever was higher.

the board would have some associations. The operations of the sub-committees and of the full board were coordinated with Treasury policy more or less automatically by the fact that the secretary of the board was the Commonwealth Actuary, Mr Balmford.⁷

In these early months the impact of control of investment was mild and the resulting restriction of business activity not great. The central objective was still seen fairly consistently as that of controlling the rate of interest; in general, control of borrowing and investment was regarded as primarily an indirect means to that end. A meeting of the board in January 1940 agreed:

That the control under the regulations should be tightened up and that proposals which do not contribute directly to the economic stabilisation of the country or cover expansion in essential industry and those which will not promote employment or assist the exchange position should only be approached with caution. Those of a purely speculative nature should be declined unless their objects contribute to the national interest and in addition there is definite technical evidence as to their ultimate success. Proposals to start or extend retail businesses, chain stores, hire purchase finance and amusement companies should receive little or no encouragement at the present time in the absence of the existence of special circumstances.

The board, when considering applications for the establishment or extension of businesses, apparently did assess "essentiality" of the proposed development along these lines, but the dominant theme was still not the technical nature of the production involved but the directing of streams of money into government loans; the reference to tightening of the regulations related to the board's desire to close loopholes in the system of control, primarily with regard to their effect on rates of interest.

The Treasury even more than the board was at this stage reluctant to become involved in direct control of rates of interest, preferring wherever practicable to achieve this result by indirect means. The limitation on bank interest had been imposed only because of the acute sensitiveness of the Treasury to that criticism of anything which looked like privilege or favour to the banks which is endemic in Australian political discussion, but it soon became clear that it was not practicable to stop at this point. It is normal business procedure in many types of enterprise to accept deposits, and in Australia these were particularly large and well established in the case of pastoral companies whose acceptance of deposits had a history of more than a century. Under conditions promoting an increase in interest rates, the pegging of those on bank deposits and the subjecting of more common forms of capital-raising to control inevitably stimulated businesses which normally accepted deposits to seek an increase in them, and stimulated other businesses to explore the field and offer the inducement of higher rates than the banks were permitted. It hardly needed a reasonable protest from the banks for the board and the Treasury to explore methods of control, for this development defeated the regulations

⁷ W. C. Balmford. (Artists Rifles 1916, RAF 1917-19.) Commonwealth Actuary since 1938; Secty Cap Issues Advisory Bd 1939-41; Mbr Cap Issues Advisory Ctee 1941-50; Chmn Cap Issues Bd 1951-53; Mbr C'wealth Marine War Risks Ins Bd 1941-46; Insurance Commr since 1946. B. Warrington, Eng, 28 Aug 1896.

as they applied to banks. The board proposed to solve the problem by a direct prohibition on the taking of deposits, except by banks, at more than $1\frac{1}{2}$ per cent, unless Treasury consent were obtained. This would have been $\frac{1}{4}$ per cent below the bank rate for a three months deposit and should therefore have meant the diverting back of deposits to the banks. Precisely because of this clear-cut discrimination the Treasury was reluctant to adopt the proposal and would have preferred requiring the receipt of deposits in excess of £5,000 in any year to be dependent upon approval. In the end, however, the Treasury capitulated and interest restrictions were incorporated in amending regulations on 29th March.⁸

These distinguished between building societies and banks on the one hand and other business borrowers on the other. The latter—other than individuals⁹—might not raise new unsecured loans at a rate exceeding $1\frac{1}{2}$ per cent nor pay interest on old loans at a rate higher than that previously paid, or $1\frac{1}{2}$ per cent, whichever was the higher. Building societies required rather different treatment, partly because of their normal reliance upon unsecured loans, partly because of political considerations. In their case the limitation referred to loans fixed for less than three months, for which the limit was $1\frac{1}{2}$ per cent, and loans for longer periods, for which they were permitted a margin rising from $\frac{1}{2}$ to 1 per cent above the Commonwealth Bank fixed deposit rates. The Treasury might consent to a higher rate of interest in all these cases, which meant that in particular those businesses which had normally financed themselves by taking deposits would not necessarily be handicapped.

This was the leading instance in which, at this stage, action was directly aimed at interest rates. The problem of direct evasion of the regulations' purpose was clear-cut and admitted no other solution. But other cases of competition in interest rates were not so easily dealt with; State Superannuation Funds were, under the agreement with the States, outside the regulations, and instances occurred where borrowers rejected by the Treasury found their funds from this source. Since the financial structure and pensions commitments of the Superannuation Funds were directly dependent upon interest earnings it was not possible to do more than seek to persuade the States to refrain from such direct competition.

The other important change in the March 1940 regulations was extension of the control to mortgages. Originally this had been confined to mortgages given by "bodies", but was now re-stated to apply to any person seeking to borrow by way of mortgage or similar loan more than £5,000 in any one year.

At this stage, as has been noted, the effect of control was still very mild and the main achievement of the board was improvement in machinery of control and the gaining of experience in the problems of procedure and evasion which would arise more acutely if control should be tightened. Already, however, there were signs that the machinery as so far developed

⁸ Statutory Rules 1940, No. 56.

⁹ The regulations used without definition the expression "body corporate or unincorporate" which had a clear meaning in law, but was not the happiest choice in regulations addressed to the public who could be pardoned for believing that an individual might be covered.

would, in that case, face serious problems. There was the obvious point that the introduction of exemption limits of £2,500 for long term capital raising and £5,000 for mortgages would encourage ingenuity in devising interrelated small investments each of which was exempt but which collectively made a unit. The board was aware of this problem from the beginning and commenced to collect data on formation of companies with a capital below £2,500. The close personal contact of its members with a wide variety of business meant that it early became aware of trends in mortgage lending, more particularly the practice of some insurance companies of substituting for normal large loans to building societies small loans to individuals under the exemption limit at higher rates. As early as April 1940, the board warned that extension of this practice would compel control. In the various amendments to the regulations improvements in drafting had been made to cope with the ingenuity of lawyers in devising means of avoidance, a problem which was to become acute later in the year, the leading example being the device of the simultaneous sale of real estate with a contract for subsequent re-purchase at a higher price. Along a different line there were already foreshadowings of the future in various hints that control of the monetary form of investment in itself would prove inadequate, and would have to be reinforced, and in some respects replaced, by control of the real resources involved. Thus in May 1940 the Treasurer suggested to the board that

. . . now that the effect of the general tightening of control under the Capital Issues Regulations is becoming more evident in the elimination of non-essential forms of investment it is my opinion that methods of eventually exercising a wider measure of control over unnecessary expenditure than can be undertaken by virtue of the regulations should be examined. As the building industry is one of the largest fields of investment it affords a very wide scope for the application of a progressive form of control . . . [but] effective control over building will probably only be obtained by direct prohibition such as the refusal of local authorities to grant permits for specific classes. . . .

A month earlier the board had been framing a statement for the guidance of the trading banks. Throughout, the board, in its handling of bank lending, had preferred to rely upon informal measures of advice and persuasion which had reached the banks through the mediation of Sir Claude Reading¹ as chairman of the Commonwealth Bank. This preserved the established relations between the central bank and the trading banks, and avoided the appearance of a new authority with responsibility for banking policy, while at the same time the powers in the Capital Issues Regulations, and possible amendments, strengthened the hand of the still weak central bank in these negotiations. The specific restriction of bank interest rates, as has been seen, was a concession to political opinion and the board would have preferred even this to be handled informally. The terms of the advice the board wished to give the banks were:

¹ Sir Claude Reading, KCMG. Dir C'wealth Bank Bd 1927-45, Chairman 1934-45. B. Sydney, 10 May 1874. Died 23 Mar 1946.

1. That the Banks in preference to actively seeking an expansion of their advance business should invest as much of their funds as possible in Commonwealth Government loans.

2. That their approach to all lending transactions should be on the following basis:

- (a) that enterprises which make demands on scarce resources both of men and materials should not be encouraged unless their activity will definitely contribute to the defence programme;
- (b) any shortage of commodities necessary to the Australian economy which could be manufactured here to be advised to the banks from time to time with an intimation that enterprises prepared to embark on work of this nature might be encouraged;
- (c) any proposals which embody substantial expenditure which would create competition for machine tools of types which are in short supply should either be refused or referred to the Commonwealth Bank;
- (d) applications for advances involving imports of equipment or materials particularly where those imports are from non-sterling countries to be approached with caution where there is any doubt such imports are essential to the Australian economy;
- (e) expansion of existing industries producing either for home consumption or export not to be encouraged where such industries cannot be maintained after the war without special protection;
- (f) as a general rule advances for the following purposes should be closely examined before being granted—
 - (i) those which will be devoted to purely speculative purposes;
 - (ii) commencement or extension of retail businesses, chain stores, cash order companies, hire purchase finance and amusement companies;
 - (iii) large building projects especially in city areas;
 - (iv) duplication of facilities which are already adequately provided. . . .²

This was an accurate summary of the attitude to the problem of control of private investment immediately before the fall of France, reflecting in its various aspects the approach of other authorities, for example that governing exchange control, and the Department of Trade and Customs, to their particular problems. There was still the emphasis on restricting avenues of investment for funds which might be diverted to war loans, while, in determining which forms of investment should be restricted, local production replacing imports was still taken to be *ipso facto* desirable unless there was grave danger of its post-war collapse. Investment depending upon imports of equipment was suspect if the equipment came from non-sterling countries. Beyond this little progress had been made in clarifying what should be regarded for war purposes as relatively inessential, except for the references to machine tools and large city buildings. The special picking out, for instance, of chain stores was more interesting as a reflection of controversy of the 'thirties, when the active competition of expanding chain stores was felt by small shopkeepers, than an illumination of the wartime problem.

In taking these views the board was dependent upon the expression by other wartime authorities of their needs and difficulties. The Department of Supply, for instance, was still unable to give any clear-cut opinions about the particular materials or equipment which, because of the competition of private industry, it found difficulty in securing; and while it was

² Capital Issues Board, Minutes 6th mtg 8 Apr 1940.

prepared to express opinions on particular applications to the Capital Issues Board, this was administratively clumsy and only after considerable time could produce any general principles to guide the board. The Department of Trade and Customs was, in accordance with its tradition, actively interested in promoting the development of new industries and rather disposed to see restriction of imports as a glorious opportunity. The Financial and Economic Committee in December advised the board to refuse applications involving an increased demand for skilled labour—which was not very helpful when the difficulties of munitions production over the supply of skill were well-known; while their suggestion to refuse any new venture about which there was “reasonable doubt” was not likely to be favourably received at a time when there was so much concern about unemployment. A month later the attention of the Financial and Economic Committee was drawn to the fact that capital supply from overseas was not subject to control by the board and that freedom given to such enterprises left a dangerous loophole, but this was raised on the committee by the Treasury itself and the discussion went off on to general issues of coordination of economic policy which the board could not have found very useful. The committee’s general attitude was that the board should seek advice from the Seaborne Trade Committee, Department of Supply, the Tariff Board and other bodies; this the board was already doing without much success because these other authorities, like the board itself, were still in the process of exploring their problems and discovering what diversion of resources would be required.

CONTROL OF DEFENCE EXPENDITURE

The story of how, and on what, funds were spent is told in other chapters, especially that on supply, but in the early approach to finance there was concern about the policing of spending to ensure that it was really necessary and that it was done efficiently. This issue came to the front immediately because, even as the September budget was presented, expenditure had gone beyond it. In the days that followed, plans for substantial increases multiplied until the financial statement of November 1939 reckoned them at £62,000,000. Of necessity many of these proposals were formulated in general terms. It was not possible, for instance, to be precise about the costs of producing equipment when there had been little or no experience of its production, while it was impossible to expect the Services to provide precise details for plans which would have to be revised as the war took shape, and which were dependent upon political decisions still to be taken.

It was natural, therefore, that there should be serious concern that these multiplying schemes for spending money should be subjected to some sort of overall review and check. The traditional watch-dog of finance was the Treasury; and at the beginning of October the Cabinet approved the scheme for “Treasury control of defence expenditure”. This involved the creation of a Treasury Finance Committee to function continuously at the Department of Defence. (The Defence Department was centred in Mel-

bourne and the Treasury in Canberra.) This committee was to be chaired by a senior Treasury officer attached to the Defence Department as liaison officer, together with the three Finance members of the Service boards, and through it would be referred to all proposals for defence expenditure, into which the committee as a body and the chairman as an individual would have the right to conduct enquiries. This committee had the right to veto on behalf of the Treasury any expenditure proposal, which it could then refer back to the Minister for Defence, while the chairman might choose to reserve a proposal for formal decision by the Treasury rather than the committee. If the Minister for Defence adhered to the proposal, despite the committee's verdict, the matter went to the War Cabinet to resolve the conflict, but the minister could meanwhile proceed with the proposal. Completely new schemes involving additions to estimates were, of course, not involved, since these required Cabinet authority, although the very fluid nature of the situation and the inevitable generality of estimates made possible dispute as to whether a particular proposal was covered by estimate already approved or was additional.

Despite the fact that this scheme was defended as being modelled on that operating in Britain, it was unwelcome to the Services, not only because it appeared to involve unnecessary delay and fiddling with figures, but because it necessarily committed the Treasury—traditionally regarded as the department which obstructed by withholding funds—to acting as a critic on technical grounds, that is to requiring that it be satisfied of the necessity of a particular proposal, of its superiority over alternative methods of achieving the same result. It was to be expected therefore that there would be resentment in the Services of this form of control. Charges of unnecessary delay levelled at the committee do not seem to have been justified. In specific instances it appeared that delay was caused primarily by, for example, the army's own machinery for the transmission of papers or by its inability to formulate its own proposals a reasonable time in advance of the time when it wanted to spend the money. But hard-pressed service officers who found themselves without supplies for recruits due to come into camp were not likely to examine critically the statement that supplies could not be obtained until financial authority was forthcoming, while those who had devoted time to the preparation of army equipment and supplies were inevitably restive when insistent civilians from another department presumed to have views on technical matters. On this latter point the Services appear to have had justice on their side.

The challenge to the Treasury when it came, however, was not based upon detailed complaints as to the methods by which the Treasury had exercised its control, but was a frontal attack on the Treasury's right to exercise control at all. It came in the atmosphere of the days immediately before Dunkirk when the War Cabinet accepted the claim that the Treasury Finance Committee was exceeding its legitimate functions by expressing views on questions of service policy and military necessity. The Treasury Finance Committee was promptly abolished, so promptly indeed that there was no plan before the Cabinet for alternative machinery

and it was not for another four weeks that a new definition of the Treasury's field of action was approved. It was laid down that the Treasury Committee would stay in being after all but would confine itself to technical financial matters such as rates of pay, when these matters were referred to it by the War Cabinet. In connection with a financial proposal submitted to the War Cabinet the Treasurer was conceded no greater right of comment and criticism than any other minister, while with financial proposals which did not come up to the War Cabinet the Treasury was allowed no authority beyond determining whether the necessary formal steps for authorisation within the Defence Department had been taken, and whether the proposal was covered by existing appropriation or needed a new allocation by the War Cabinet. The Treasury was permitted to retain a representative on the Board of Business Administration who might report to the Treasury on any matter involving expenditure, but this power of report explicitly covered no power to require delay.

This was a signal victory for the Services but its importance is much less than might appear, because of the earlier creation and development, within the Department of Defence, of the Board of Business Administration, which was doing, as part of that department's own machinery, very much the job of independent critic of spending proposals which, when attempted by the Treasury, had exposed this department to so much hostility.

The Board of Business Administration grew out of earlier less formal attempts to provide the Department of Defence with expert advice on business aspects of service spending. The Advisory Panel on Industrial Organisation established in 1938 had discharged this function in some degree, but the panel had been transferred to the Department of Supply and Development on its creation in June 1939, leaving the Defence Department itself without business advisers. This gap was filled in September, after war had begun, by the appointment of two business consultants to the Defence Department. These were Mr Essington Lewis, who was specifically concerned with equipment, stores and munitions, and Mr Norman Myer³ who was consultant on clothing and textile requirements. They might function, for more general questions of the department's relations with business, as an advisory business committee. When in November 1939 the large expansion of the Services led to the creation of separate departments of Navy, Army and Air, with a central core of the old Defence Department recreated as Defence Coordination, it was necessary to modify these arrangements. The revised organisation was partly modelled upon that of the previous Board of Business Administration established towards the end of the 1914-18 war. The Prime Minister outlined his view:

It is my desire that the Business Consultants should function as a Board of Business Administration in the Defence Coordination Department, under a mandate to advise on the whole field of Navy, Army, Air Force and Supply Department (Defence) expenditure. The Business Board would be available to advise the Ministers of these Departments and their Boards on proposals, but it would be responsible

³ N. Myer. (1st AIF: 1 Div Art 1917-19; Lt.) Chmn and Mg Dir The Myer Emporium Ltd, Melbourne. B. Russia, 25 Oct 1897.

to me (the Prime Minister and Minister for Defence Coordination) for the performance of its duties generally, for the investigation of questions referred to it by me, for reporting on the progress of the material side of defence preparations and the efficiency of the machinery for their execution, and for reporting to me on such matters as the Board may wish to bring to my notice.⁴

To the existing consultants, who retained their special fields of responsibility, was added Sir George Pearce,⁵ responsible for general administrative matters. The new board was given status and authority by special regulations which included wide powers of enquiry and advice on all matters concerning expenditure on the Services, on the organisation and administration of the service departments in relation to supplies and generally on any matter which any service minister might refer to it or which the board itself chose to raise.⁶

The board functioned with headquarters in Melbourne and met almost every working day throughout the major part of the war. It equipped itself with State business committees to carry out enquiries in the various States and with a staff of mobile inspectors under an Inspector-General whose activities were largely responsible for the success of the board.

Originally the board's enquiries and supervision ranged very widely and might cover almost any problem of supply or administration. It was concerned with questions of acquisition and lease of land (a particularly difficult subject because of the decision that the Commonwealth should not build on leasehold land); with the construction of camps and the victualling and personal equipment of troops; and with a wide range of supplies of equipment, the enquiry into the details of which even took it on to examining and improving procedures for the formulating of demands and placing of contracts. It repeatedly drew attention to instances where standardisation and simplification of specifications could improve speed of supply or reduce costs. It drew attention to the serious consequences for industry of the irregularities of service demands, and supported a policy of accumulation of stocks of clothing and equipment coupled with the installation of systems of stock control. Increasingly, however, this wide range was narrowed until the main interest of the board came to be buildings and construction of them, and also questions arising from the reports of its inspectors on administration of camps and schools of training. It might still on occasion concern itself with various other needs. The development successively of the Department of Munitions and that of Aircraft Production meant that there was available to the relevant Service technical advice of more expert nature than the board could provide, while in any case many of the problems which had concerned the board became the concern of these production departments themselves. Moreover as principles of procedure and techniques were established it became unnecessary for the board to act.

⁴ Letter from Prime Minister to Lewis, Myer and Pearce, Nov 1939.

⁵ Rt Hon Sir George Pearce, KCVO. Senator 1901-38; Min for Defence 1908-9, 1910-13, 1914-21, 1932-34, Home and Territories 1921-26, External Affrs 1934-37; Member Bd of Bus Admn 1939; Chmn 1940-48; Memb Grants Commn 1939-44. B. Mount Barker, SA, 14 Jan 1870. Died 24 Jun 1952.

⁶ Statutory Rules 1939, No. 182, 22 Dec.

In all these enquiries and reports the board was concerned primarily with the efficient spending of money, and all its attention to the specific details of this or that project was subordinate to that end. It was therefore carrying out from within the service departments a function which the Treasury Committee had been less favourably placed to do. Indeed, in time, this situation was recognised by the transfer of the board, in February 1942, to the Treasury, but by this time the board had established itself with the Services and could continue to function, nominally from without, and not arouse the old hatreds.

It did not achieve or retain this position without difficulty. Initially there was a good deal of suspicion by the Services and a disposition to feel that they were being put upon the defensive, but the members of the board were able to overcome this attitude. One important factor was the determination of the board to avoid all publicity for its activities so that service officers need not fear that ammunition for outside critics, of whatever party colour, would be supplied by the board; in fact they were made to feel that any criticism from the board was a domestic family matter within the department. Moreover, the board was very insistent that there should be no delay in the board's examination of proposals. Wherever it felt that the main lines of a proposal were justified but the details needed enquiry, it would authorise the commencement of the project while enquiry was in progress. Increasingly it promoted informal consultation in the process of formulation of proposals, so that finally the formal examination was formal indeed. The system did not always work without friction. In 1940 the very success of the board as a critic led to instances of attempts to bypass it by transmitting expenditure plans to the Treasury before they had been to the board, and by making initial direct arrangements with the Department of Supply before the board had dealt with the items. There was special difficulty with the air force, mainly because of the reluctance of that department to recognise that its standard of equipment, buildings and personal services were not only out of line with those of the army but on occasions conspicuously excessive. But on the whole the board's early record was one of a successful combination of good relations with the Services and execution of its main object of ensuring economy in expenditure.

The inauguration of capital issues control, the curtailing of Treasury control of defence expenditure, and the rise of the Board of Business Administration, were the working out at the level of administration of the policy of the November 1939 budget. Meanwhile, however, there were doubts and discussions about the principles of policy, not merely in the restricted field of finance, but over the whole organisation of a war economy. The upshot was the remarkable episode of what might be described, not inappropriately, as the Menzies seminar, that is the presentation to the Economic Cabinet, by various leading ministers, of memoranda on economic policy. These memoranda ranged over many aspects of war

economics, but their dominant theme was finance and accordingly they are discussed here.

The first session was on 16th February 1940 when the Prime Minister read a memorandum to the Economic Cabinet to be followed by the Acting Treasurer and the Minister for Commerce. After discussion it was decided that other ministers, especially those for Trade and Customs and for Supply, should present memoranda at a subsequent meeting. In the event this later discussion did not take place until the meeting of 11-12th March. The documents preserve the essence of thinking on finance by senior sections of the Executive at this period.

The Prime Minister's memorandum reflected his preoccupation at this stage with the question of coordination as he saw that problem of economic policy. What he hoped to achieve by the discussion of these memoranda was indicated by his statement that "before we decide to catch any bus we should at least find out its destination and whether it is going on a journey that we really want to take". He sketched his impression of key departments with widely divergent approaches to wartime economic questions planning to send their own particular "buses" on quite unrelated trips. The Department of Trade and Customs was obsessed with war-created opportunities for the establishment of any and every new industry. The Department of Air was hostile to all industrial development since it would make impossible their difficult task of recruiting skilled manpower. The Treasury fixed its eyes on purely monetary questions aiming "to maintain investible funds so that public loans may be filled; to keep interest rates down; and to encourage the stability of industry so that taxation yields may be high". The Department of Commerce was on the one hand organising profitable sales to Britain, and on the other hand developing somewhat extravagant ideas for the expansion of rural industry, with consequential suspicion of industrial expansion. It was the Prime Minister's view that these divergences must be reconciled, and, clearly, he hoped that an apparently academic discussion in the Cabinet would achieve this end.

Insofar as he indicated his own views they were implied in his praise of the combined work of the Treasury and the Commonwealth Bank. In this connection his comments were foreshadowings of the gradual departure that was to be made from Spender's principles of November 1939. Menzies' discussion ran entirely in terms of money, with scant reference to the real resources, control of which was the essential problem. He placed great emphasis, for instance, upon investment control to ensure the filling of public loans; and the passage quoted above concerning maintenance of industry in order to sustain taxation yields embodied a convention of thinking which was to become increasingly prevalent among members of the Government.

The memorandum from the Acting Treasurer showed the clearest appreciation of what a wartime economy involved, a clarity which was undoubtedly due to Spender's willingness, already noted in connection with the November budget, to seek advice and views from the Financial and

Economic Committee, and his readiness to discuss issues with its chairman rather than to accept the traditional approach of Treasury officials. He drew attention to the danger of attempting too much and the risk that Australian commitments for manpower and plans for war production would fail by being spread too widely. He expressed the view, which was already beginning to have a number of adherents, that a state of full employment would be reached in the near future. Events were to belie this forecast, although, had the execution of production plans been pressed ahead vigorously, the forecast would have been justified. It was Spender's view that cuts in consumption would be necessary if inflation were to be avoided. Control over private investment he presented not so much as a monetary device for filling loans as an instrument for restricting use of manpower and materials in non-essential activities so that they might be available for war. He emphasised, consistently with this, that the restriction of imports was encouraging indiscriminate growth of new industries which in his view ought not to be permitted unless their wartime value could be established. He foreshadowed the need to ration materials, to tighten up the restriction of non-sterling imports, to ration petrol. Returning to the theme of finance and the objects of avoiding inflation, he urged that substantial increases in taxation, "severe enough to prevent inflation", should be submitted to Parliament promptly.

The other memoranda before the Economic Cabinet made a notable contrast with these two. That from the Minister for Trade and Customs started well with what seemed like echoes of Spender's view about the approach of full employment, about the need to control private and government investment with an eye to the real resources used instead of freeing money for government loans, but his reiteration of the need to further cut non-sterling imports formed a bridge to lengthy discussion of the attitude of his department to industrial development. This fully merited the stricture of the Prime Minister, for, after making a proper genuflection to the paramount needs of war in deciding what new secondary industry should be permitted or promoted, he gave reasons which in total amounted to nothing less than welcome for any new industry. The Minister for Commerce in his own different field had a similar approach, seeing great opportunities for the expansion of rural industry based upon far-reaching irrigation and electrification programmes and with his eyes fixed steadfastly on the post-war period. The Minister for Social Services and the Postmaster-General similarly were looking well ahead, and perhaps the only contribution to wartime problems was Sir Frederick Stewart's⁷ proposal for the introduction of unemployment insurance, and even that was seen as a desirable social service rather than as a wartime device for draining off purchasing power or making wartime restriction of civilian employment more palatable.

All the ministerial memoranda had been referred to Sir Ernest Fisk as Director of Economic Coordination, and the second meeting of the

⁷ Hon Sir Frederick Stewart. MHR 1931-46; Min for Commerce 1932-34; Min for External Affairs, for Health and Social Services 1940-41, for Supply 1940. B. Newcastle, NSW, 14 Aug 1884.

seminar had his views before it. It can hardly be said that these advanced the discussion or clarified the problems. So far as the Cabinet was concerned the outcome of the whole discussion was nebulous. Perhaps some ministers may have learned something; perhaps their advisers may have been compelled to think out their attitudes a little more fully, but subsequent months showed little evidence of that. The Economic Cabinet took no decisions beyond the original sweeping reference to Fisk who was empowered to follow up the various issues of coordination which had been raised, with freedom to seek the views of any government organisation. That was hardly the way to achieve "coordination", and in any case Fisk was not the man to do it. Confronted with problems of a type completely foreign to his whole background and experience, characteristically he fell back upon vague generalities about the making of surveys and the seeking of information; coordination as between government departments demanded patient negotiation and conciliation, which one who had commanded a major business enterprise could find only confusing and frustrating.

Even more, the outcome signified the failure of the Economic Cabinet.⁸ These might have been vital weeks in the formulation of wartime economic policy, but the Economic Cabinet, established only in the preceding November, fumbled this, the most important issue presented to it, and as a body achieved no more than the registration of the absence of any common framework of thought in the Government as a whole.

Meanwhile the only minister who had had a clearcut and consistent view of what the problems of a war economy were to be, had, in his own field, his own way. In May Spender, now Treasurer in name as well as in fact, was able to present to Parliament a financial statement which embodied substantially the views on finance which he had put forward in his memorandum, and at the same time to initiate action designed to restrict, through the agency of the Loan Council, public works spending by State and local government. The specific proposals of his financial statement, like his memorandum to the Economic Cabinet, bore the impress of the Financial and Economic Committee which, ever since the November budget, had continued the discussion of the desirable development of financial policy and had canvassed various specific measures.

Between November 1939 and the following May the keynote of the discussions in the Financial and Economic Committee was the need to devise that taxation which, according to the November budget speech, was part of government policy, and to have it progressively adopted. "The problem is, of course, to persuade Cabinet to accept taxation" was the theme of discussion on 16th December.⁹ Increasingly it became clear that the acceptance of more taxation would be very unwilling indeed, and the committee devoted a great deal of time to discussion of expedients which would achieve the same substantial result of draining off purchasing

⁸ See also discussion in P. Hasluck, *The Government and the People, 1939-41* in this series.

⁹ Phrase from Minutes.

power, but might be disguised or coupled with devices to make them more palatable.

Thus in December it toyed with a general excess-income tax as an alternative to the Government's disposition to adopt a modest excess-profits tax as a political gesture; compulsory loans were considered (the first of several occasions), the committee regarding them as a poor substitute for straight-out income tax, but better than no increase in tax. Unemployment insurance on a contributory basis was explored, and an amalgamation of unemployment insurance and compulsory loans into a version of Keynes' deferred-pay plan—then being widely discussed—was rejected primarily on the ground of the impossibility, in the framework of Australian politics, of making it work according to plan.

By January the committee was stressing the need to tax in order to restrain consumption, and moving on to analysis of the future prospects of government loans. This was a refreshing change from the Treasury approach, for it placed its emphasis on measures to promote increased saving rather than the negative line of stopping other channels of investment. Included were ideas for pressure on primary producers, whose incomes were inflated by export prices, to reduce their indebtedness, with the alternative of withholding, until after the war, portion of the receipts from exports. In March 1940 the committee discussed at length means to make greater funds available for loans, but their approach made a marked contrast with that embodied in the Capital Issues Regulations, being directed at the real resources on which the money was spent; for example, a cut in building by one-third and a similar reduction in car imports were considered. The tenor of the discussion was that restrictions even on this scale, which had little chance of acceptance at this time, would still leave more than £30,000,000 to be found by additional taxation of incomes, as well as £10,000,000 from land tax and estate duty, and a tax on business profits.

Reinforcing these discussions of the Financial and Economic Committee went a hardening of the attitude of the Commonwealth Bank against any heavy reliance on central bank credit, and its rejection of approaches from the trading banks for adoption of the technique of 1914-18, when the banks were encouraged to make liberal advances to customers for the purpose of war loan investments. The committee continued to hammer away at its dual doctrine: the necessity of increased taxation, and the need to attack private investment as a real rather than a monetary question. Its main discussion was contemporaneous with the Economic Cabinet seminar, but its only reflection there was in the memorandum from the Acting Treasurer. Nevertheless, the willingness of Spender to listen to the committee was decisive for its influence.

THE FINANCIAL STATEMENT OF MAY 1940

In April the Governor-General's speech foreshadowed the implementing of the second phase of the Spender financial programme:

The principal object of the present session of Parliament is to make such provision of money as will enable our war effort to be financed. . . . [The Government] are resolved to avoid the evils of monetary inflation, since it imposes unjust and inequitable financial burdens particularly upon the wage and salary earner, destroys public confidence, is destructive of savings, and would lead inevitably, if pursued, to financial collapse and post-war depression. In view of the approach to conditions of full employment of our resources, my advisers will, in this session, direct particular attention to further taxation measures and the authorisation of war loans.¹

Presenting a financial statement in May, the Treasurer explained that the purpose was to give adequate warning of stiff increases in taxation to take effect in July. After reviewing previous financial measures he proceeded to a summary of the manpower position—thus to some extent neutralising the continued insistence on “conservation of [financial] resources”.² Total employment was estimated to have risen by 80,000 or four per cent of the working population, between August 1939 and February 1940; the Services estimated an intake of 50,000 between January and July 1940 and a further 60,000 in the following twelve months. In the light of war production plans it was believed that “all probabilities point to the conclusion that we shall soon have no reserves of unemployed manpower, at least of the kind which can readily be employed”.³ The rising liquidity of the banks and the decline in interest rates pointed to the same conclusion.

Nevertheless the experience of under-spent defence votes and the dominance of fear of unemployment combined to produce some hesitation: “The Government is proposing finance only for that part of our commitments which it is confident will be carried out before the end of June 1941. It is therefore satisfied, and has been at trouble to ensure, there is no danger that it will over the year as a whole take more from the public in loans and taxation than it will spend on the war programme.”⁴

“All considerations,” it was concluded, “point therefore to the advisability of relying upon taxation and public loans to obtain the funds required by the Government in the period immediately ahead. The advantages of this course may be summarised as follows: (1) the transfer of resources to defence activities can be more systematically effected and the burden upon the community can be more deliberately and more exactly apportioned; (2) the diversion of purchasing power from private to public uses is the only alternative to inflation, and at the same time it conserves essential overseas resources by reducing the demand for imports.”⁵

The yield from customs and excise had proved much better than forecast, mainly because of a steep rise in imports from an average of £7,300,000 a month in September-December 1939 to £11,700,000 a month in January-March 1940. The explanation was that the natural desire of importers to rush stocks in had not met the expected difficulties

¹ *Commonwealth Debates*, Vol. 163 pp. 6-7, 17 Apr 1940.

² *Commonwealth Debates*, Vol. 163 p. 469, 2 May 1940.

³ *Commonwealth Debates*, Vol. 163 p. 470.

⁴ *Commonwealth Debates*, Vol. 163 p. 471.

⁵ *Commonwealth Debates*, Vol. 163, p. 473.

in shipping and supply. For 1939-40 the November estimate of customs revenue for the year was raised by £7,000,000 and other items by £1,000,000. For 1940-41 it was estimated that £16,000,000 would be available for war expenditure from revenue, if current rates of tax were unchanged. War expenditure from the beginning of the war to the end of the financial year 1940-41 was estimated at £125,000,000 in Australia and £35,000,000 abroad.

Following the loan of £6,000,000 sterling raised in London in June 1939, it had been arranged that the amount needed to the end of 1940 should be provided by loan from the British Government at the same rate as the British Government was itself paying. The Treasurer commented: "If overseas finance is to be provided by Australia itself without resort to borrowing from the British Government, not only must the necessary amount be raised in Australia by borrowing or taxation, but also sufficient London funds must be amassed in the Australian banking system. With reluctance, the Government has decided to defer for the present the question of providing funds in Australia to meet any portion of the overseas expenditure in 1940-41. In the proposals which I am about to make I am, accordingly, leaving out of my calculations the whole question of overseas war finance. I emphasise, however, that this question must be faced at a later stage."⁶

For the remainder of 1939-40 it was estimated that £7,000,000 still had to be found, and for 1940-41 expenditure on war was set at £79,000,000, a total of £86,000,000, towards which existing taxes would provide £16,000,000. Therefore £70,000,000 of new money had to be found and it was proposed to find £50,000,000 by public loans and £20,000,000 by additional taxes. Ordinary company tax was not modified but two new taxes were planned, a wartime company tax and an undistributed profits tax,⁷ applying to companies only and estimated to yield £5,300,000 a year when fully in operation. The latter proposed to levy 1s in the £ on undistributed profits, after allowing deduction of all other taxes and exempting one quarter of amounts undistributed. Yield was estimated at £575,000. Personal income taxes were increased to yield a further £4,000,000 or nearly fifty per cent more. The main burden fell on the middle incomes. The exemption limit of £250 for a single man plus £50 for each dependent was retained, while the divergent levels of State income taxes dictated restraint in increases at the top of the scale.

Land tax rates were doubled to give a further £1,500,000. Estate duties were raised, to yield, when fully operative, a further £850,000. Sales tax was moved from 6 per cent to 8½ per cent, giving a further £5,000,000. Customs and excise on petroleum products were raised to provide a further

⁶ *Commonwealth Debates*, Vol. 163, p. 475.

⁷ As originally proposed excess over 8 per cent paid—
 excess over 8 per cent up to 9 per cent—4 per cent
 9 " " 10 " 8 "
 10 " " 11 " 12 "
 Maximum, over 22 per cent— 60 per cent

A tax on undistributed profits was among suggestions from a Committee of the Commonwealth Institute of Accountants to the Treasurer in March 1940. *Herald* (Melbourne) 5 Mar.

£3,300,000, and a special war duty on all imports, other than petroleum and imports free of duty, of ten per cent of duty otherwise payable was estimated to yield £2,000,000. In total, and allowing for some delay in receiving the full yield of some of these taxes, additional revenue for 1940-41 was calculated to reach the desired total of £20,000,000.

Changes in the financial programme followed fast. In June authority for a further £20,000,000 of loan money was sought, the primary purpose being the development of a drastically reorganised munitions programme after the fall of France. Special arrangements were made to accept offers of interest-free loans on the understanding that repayment during the war or some longer agreed period would be possible if lenders were in difficulties. With an excess of caution the amount was limited to £5,000,000, although two months later 18,268 individuals had thus subscribed £4,743,009, the largest single amount being £260,000.

LOANS AND THE COORDINATION OF COMMONWEALTH AND STATE WORKS

Despite the inclusion in Spender's financial proposals of increases in taxation, it was still true that main reliance was placed upon loans, and this brought into sharp focus the growing view that serious restrictions of State loan expenditure must be achieved. As has been seen, the State governments had succeeded in obtaining virtual exemption for themselves and local authorities from the operation of capital issues control. Nevertheless there was continual pressure from the Capital Issues Board who drew attention to the large gap that was created in the control; the board stressed the competition between borrowing of local bodies and the Commonwealth Treasury, and the difficulty that was created in reducing interest rates in these conditions. At this stage the question was still considered primarily as a problem of competition for money rather than real resources, and especially of maintaining low interest rates.

Behind the reluctance of the States to make any concessions lay, on the one hand, their concern about unemployment. A major part of the works which they carried on were commonly described as "relief" works in recognition of the way they were used to provide whole or part-time employment for unskilled labour. Thus it was estimated in April 1940 that in New South Wales alone there were about 8,000 men employed full-time on State works financed by loans and a further 14,000 on part-time relief work. On the other hand the States were unwilling to retire in favour of the Commonwealth from fields of activity which were traditionally theirs.

In pursuance of the view expressed at the Menzies "seminar" that there should be immediate proposals to Parliament for increased taxation, the Treasurer sought the views of the Financial and Economic Committee about the amount which might be raised by public loans. The committee answered the question at length to the general effect that about £30,000,000 might be so found on various conditions. The most important of these was a cut in works expenditure, other than for defence, by one-third, which

would fall mainly upon the States and local authorities and, if this were to be enforced, would create serious difficulties for them and therefore political difficulties for the Commonwealth in its dealings with the States.

It was at this stage that a group of temporary recruits to the Commonwealth Treasury urged a new approach to the States. The view which they put forward was that unless the States were pressed to reduce these works they would be disposed to carry them on indefinitely, especially because the depression years had built up a state of mind among the workers concerned which made it unlikely that they would of their own initiative take advantage of the new employment opportunities created by the war. At the same time it was politically essential to organise placement of these men in other employment if State works were reduced. Their proposal was at this stage no more than one for direct discussion between State and Commonwealth Treasury officials, but it was taken up with vigour by the Treasurer, who submitted it to the full Cabinet as part of the general financial discussion on 9th April 1940.

He urged that the States be requested to weight their loan expenditure for 1940-41 more heavily in the early months in expectation that war expenditure would later be increasing rapidly. The Defence Department was to be urged to speed up construction work, while the States' labour exchanges were to be notified of such works within their own boundaries and asked to reorganise their activities towards placement rather than relief. The Treasurer obtained authority to take up with Federal departments the speeding up of construction work for war purposes and to open negotiations with the States along the lines he proposed.

Accordingly information was sought from the Services, the Department of Supply and Development and the Department of the Interior (at this stage the principal construction authority for the Commonwealth) about their works programmes, and the possibility of speeding them up. State Premiers were notified of the policy embodied in the Cabinet decision and invited to supply detailed information of their works programmes for 1940-41, together with statements of the extent to which these could be adapted to employ labour not absorbed by the defence programme, the degree to which State construction authorities could undertake for the Commonwealth the execution of works, and the adaptability of labour exchanges to the task of directing labour into defence activities. The departments were not able to supply the kind of information which was sought, while the States did not supply sufficient information to form the basis of specific proposals. This was not entirely their failure since, for example, the Department of Supply and Development could not say how its programme for buildings, plant and equipment—then estimated at £14,000,000—would be divided between the States, while army programmes could not be obtained at all.

Accordingly the whole question of what was coming to be called "coordination of works" went to the next meeting of the Loan Council without these various enquiries being completed, but with the Commonwealth having a very precise plan ready to put to the Premiers.

The Loan Council, consisting of the Prime Minister and the Premier of each State, had been embodied in the Financial Agreement of 1928 between the Commonwealth and States, being built upon an earlier advisory council. The basic idea, as originally conceived, was to minimise competition in the loan market between the various governments. Its purpose was to pool information about programmes for the raising of loans so that agreement might be reached about the total amount to be sought and its distribution between governments. In accordance with the new arrangement about existing debts covered by the Financial Agreement, it was intended in general that the total of loans agreed upon should be raised in the name of the Commonwealth. The agreement did not cover Commonwealth loans for defence and war, although the practice was that these were reported to the council since they would naturally influence estimates of the total amount the loan market could provide. Nor did it cover borrowing by statutory and local government authorities. The subsequent history of the council was much influenced by the events of the economic depression of the 'thirties in which various forms of discreet avoidance of council control were developed by State governments, particularly through local government finance. It is doubtful if the council did anything to reduce the total volume of borrowing, although it may have cheapened it by eliminating open competition in the market. It acquired a quite inordinate respectability in the London money market, and within Australia certainly did provide a regular opportunity and a formal procedure for consultation between governments, which was valuable even when they did no more than agree to disagree.

The council met on 27th May 1940 in the shadow of the collapse of the Western front in Europe, and while it was meeting the Belgian army capitulated and the evacuation of Dunkirk commenced. The impact of these events was reinforced by the fact that the Commonwealth came to the council with a precise plan which envisaged a positive role for the States. The core of the plan was the appointment of a coordinator of works, to work with the States and with Commonwealth authorities for the production of a programme of works which should give priority to defence needs and at the same time protect the interests of the States' uncompleted projects and the States' political obligations in respect of unemployed, for whom the defence programme did not provide. The States were offered the responsibility of exercising approval over all works carried out within their boundaries by statutory and local government authorities for Commonwealth purposes in the war programme. It was recognised that the scheme would take some time to come into operation and that the States would not have funds to carry on in the meantime, and the Commonwealth undertook to provide these.

The Premiers received the proposals with cautious willingness to consider them, their main reservations concerning the problem of choice of a coordinator of works and the possible long-term implications of the plan. The following day the council agreed to all the essential points of the plan, and specified that the council itself should appoint a coordinator

of works and that the plan was to be reviewed at the end of twelve months and should not, in any case, extend beyond the duration of the war.

After the discussion of various names choice for the office of Coordinator of Works fell upon Sir Harry Brown,⁸ who was appointed, and equally promptly he proceeded to work. Apart from the more obvious difficulties of high policy as between Commonwealth and States, he found his path obstructed by problems of procedure in relation to works programmes: the difficulty of attaining any satisfactory classification which could apply to the varied information supplied by State authorities; and the application of estimates and departmental accounting which had only complexity and obscurity in common. He found it difficult to get information in a useful form, that from the States being too often expressed in purely financial terms, such as whether expenditures were for "purposes other than for deficits", or whether they were to be met from revenue, and so forth, while that from the Services was often in terms too vague and general, for example, "parade grounds", "inland defence roads". There emerged a number of instances of the Services persisting with activities which could not be regarded as essential, such as "South Head, paths and tree planting". He also became increasingly impressed with two problems: on the one hand the risk that the continuance of works of some defence value and low priority would create serious scarcities, and on the other hand the disturbing lag between proposals for expenditure on defence works and the actual expenditure.

When the Loan Council met again in August 1940 the Coordinator's report drew attention to the difficulties inherent in coordination as applied to government works. The upshot of council consideration was to reduce the total loans to be borrowed for works for the year 1940-41 from £24,000,000 to £17,000,000, with a proviso that this decision should be reviewed in December. In the event it was not the nominal cut in expenditure which occasioned vigorous discussion but the lag between authorisation and expenditure, which was shortly to become a major issue.

⁸ Sir Harry Brown, CMG, MBE. Dir-Gen Posts and Telegr 1923-40; Chmn British Gen Elec Co. Pty Ltd 1940-53; Coord-Genl Works 1940-45. B. Hylton, Eng, 28 Dec 1878.

CHAPTER 7

LABOUR IN WARTIME INDUSTRY

MANPOWER was not an unexpected problem. It had been defined; it had been provided with administrative machinery as part of pre-war efforts to prepare the nation. But pre-war plans were imaginative literature; wartime conditions were hard fact. While the administrative machinery conceived before the war did adjust itself to the immediate needs of the moment, definition of the scope of the manpower problem, which might have guided the machinery and foreseen the problems which arose, did not.

In pre-war planning, the problem was seen as a joint demand, by the Services and by munitions and key industries, on the same supply of labour, as part of a vaguely defined notion that to an unknown extent war would involve interference in civilian employment. The National Register had been designed to measure the vital age-groups; the Manpower Committee within the Defence Department represented the pre-war assessment of the machinery necessary to deal with the problem. To gauge the men available the committee expected to have the statistics of the National Register; to allot the men as between the conflicting claimants they evolved the List of Reserved Occupations. But actual war was so different from the imagined war that it took two years to create, in the Manpower Directorate, an authority to decide, with regard to the needs of the nation as a whole, the proportions which each claimant should have out of the available total of labour. In short, it took two years of war to produce what might have been the missing manpower chapter in the War Book.

In the first two years of war it is difficult to discern any coherent approach, on the political level, to the problems of labour in a war economy, which can be dignified with the name of manpower policy. Ministerial and other statements which appear to suggest otherwise—and they were neither many nor vigorous—were not reflected in any positive action or pressure for action. The pre-war plan for a national register of men was put forward as a means of securing a rational allocation of scarce skills, but the government did not display, in debate, any clear view of what this meant, and joined the Opposition in treating the issue of the register as its relationship to military service and perhaps to conscription for such service. Efforts were made to establish a basis of cooperation with the trade unions by creating a representative panel of advisers, but the unions were wary and disposed to carry into the question of composition of the panel issues of trade union organisation and politics; this irritated the Government, not well-versed in the importance of such matters, to the point of creating, somewhat abruptly and by unilateral action, a panel which for some time had to live down the manner of its birth. Aliens, who might have been regarded as a source of labour to replace soldiers or to increase the supply in other ways, were debarred from employment in any work directly connected with war production.

The Services were content to concentrate on building up their own numbers. They were aware of, and interested in, the problem of labour for the production of munitions and service equipment, but even here were disposed to regard it as a vital problem for someone else to handle. In April 1940 the Department of Supply queried a rumour that the navy intended to build fifty ships; the department was concerned about the consequent demand for labour which this implied; but the navy expressed the view that "it might help if the Supply and Development Department were informed of projected planning for new ships, but after all, labour was a problem for determination by the contracting parties which formulated their labour requirements when drawing up tenders".¹

As the output of munitions expanded, and skilled labour in engineering and allied trades became scarce, various devices were adopted—a "dilution" agreement to permit the use of partly-trained workers was negotiated with the Amalgamated Engineering Union and other unions, with emphasis on safeguards for the fully-qualified; the beginnings of training schemes had been made; a limited control of engagements of labour, designed merely to hinder the transfer of labour out of munitions industry. A "war loading" on wages in such industries made them somewhat more attractive and later modifications in the powers and procedure of the Arbitration Court were designed to minimise disputes in these industries. But these various changes did not constitute an integrated and conscious manpower policy; they were *ad hoc* reactions to particular situations.

Apart from the specific pre-war preparations to which reference has been made, before and after the outbreak of war there were not lacking general statements by individuals and committees of the restrictions on peacetime employment which full military and economic mobilisation would require, and generalised calls for a policy of preparation to cope with that situation. But it is only in the Manpower Committee that one finds this issue kept constantly in view, and pushed insistently forward again and again. Even in that committee, it is true, no full-bodied plan of action emerged, but the clarity and substance of its pre-vision, as the war progressed, were remarkable in a committee consisting of representatives of the Services, the Departments of Munitions, and of Supply, and chaired successively by soldiers. It is the more remarkable, for all its limitations, by reason of the absence of coherent and imaginative thinking in more likely places.

The explanation for the slow emergence of manpower policy is to be found in several interrelated factors. Foremost is the fact that for two years manpower problems were not acute—or to put the matter another way, the scale of the war effort relative to population and national income was small. It is not for the present volume to analyse in detail how the course of actual fighting, the local political instability, and the slowness and incompleteness with which limited political directives were implemented, kept the scale of the war sector of the economy small. But the fact of its smallness meant that very nearly the whole of the transfers of

¹ Minutes of Manpower Committee 1 Apr 1940.

labour and equipment, required by the war plans which were implemented, could be achieved by voluntary action inspired partly by patriotic motives and the desire to be doing war work, partly by the influence of self-interest—whether reflected in higher wages, higher profit rates and large contracts, or the modest security from call-up of a reserved occupation. On the labour front, voluntary transfers were especially easy because of the large reserves of labour readily available. Unemployment was, on the outbreak of war, fairly high and had been rising; indeed contemporary pre-war forecasts were that, if war were avoided, some degree of slump was inevitable. The early months of war brought a good deal of additional unemployment as employers adjusted their activities to lost oversea markets, or to difficulties of supply; or as they cautiously deferred investment plans, and left vacant jobs abandoned by men who enlisted. Perhaps even more important than the fact of substantial numbers out of work was the way the spectre of unemployment haunted all discussions of policy, and stayed the hands of those who sought action which might in the short run displace people from work.

To the unemployed must be added the employment of women not normally in the labour market, the return to or retention in industry of those beyond normal working age, longer hours and harder work—all achieved in this early stage with minor financial inducements and by the desire to help in a war job. Indeed for many months, the efforts of women to serve were embarrassing alike to the Government and to the Labour Opposition who were united at least in their fears of women taking men's jobs.

It was not merely, however, that the war effort could be achieved almost entirely by voluntary action within the framework of the ordinary market processes. Most Australians wanted it thus. Labour hostility to any form of compulsory service, whether for fighting or in the form of "industrial conscription", was an article of almost religious faith, the sources of which are referred to in another volume.² Not until the immediate threat of invasion would Labour acquiesce in any serious departure from this principle, and minor departures attained by earlier non-Labour governments were resisted at every level of political activity, and even when formally legalised were laxly enforced for this reason. But the circumstances of the time, and especially the fact that Labour was in Opposition, necessarily meant that hostility to compulsion in the use of labour received publicity and found expression in repeated formal statements. An equal reality, but less discussed because more widely taken for granted, was the assumption that the use of materials and equipment should be managed with a minimum of government interference and primarily by reliance on market processes. The power to tax and the power to commandeer were used gently, and even the modest plans of 1939-40 more than once found funds intended to be spent on war activities lying unspent.

Entangled with all these factors was the very widespread presumption that Australian participation in the war would parallel that of 1914-18—

² See P. Hasluck, *The Government and the People 1939-41* in this series.

a volunteer expeditionary force, some modest munitions production, with main emphasis on the supply of food and raw materials.³

It is to this general background that the handling of questions of labour supply in the first two years must be constantly referred. Broadly three phases can be distinguished.

First was the initial emergency reaction to immediate war—the protection to established social relations in the *National Security Act* on the one hand, and on the other Sir Thomas Blamey's success in achieving the prompt application of the still-tentative List of Reserved Occupations, and the efforts to make the best of the National Register. But these were the forging of instruments for which little use appeared, and whose adoption was succeeded by a second phase of growing shortage of skilled men for munitions side by side with a sustained high overall level of unemployment. But behind the continuance of unemployment and the specialised demands of war industries for particular skill, there were taking shape, even in the early months, the conditions for an overall scarcity of labour which would force a drastic re-assessment of the relative claims of the Services, war industries, and the scarcely-touched range of civilian employment outside munitions in the narrow sense. At any time this scarcity might have become immediate and acute. In the event this third phase was delayed until mid-1941, when there were but a few brief months before war in the Pacific abruptly transformed the whole problem by placing the issue bluntly in terms of inadequate total numbers.

DEFINITION OF MANPOWER ISSUES

No comprehensive summary of total manpower demands existed when war began and many weeks passed before the sectional figures for each of the Services, munitions, and those industries recognised as vital to the Services, could be brought together in a unified picture. The numbers in the Services and in the government factories concerned were known, of course, in September 1939, and each individual authority had some idea of its own probable expansion. But these tentative figures of needs were tentative indeed, were dependent on major policy decisions to be taken by the Government, and were in constant flux as plans were reconsidered. They did not lend themselves to aggregation, being designed for the limited purposes of the authority concerned, and related to all sorts of periods of time. In any case the war proved so different from what had been expected that there was an air of unreality about even these sectional figures. Japan did not move, and the "phoney war" clouded the basis of forecasts.

In these circumstances it is not surprising that there was no initial planning figure, and that procedure for the continuous measurement of the

³ Even as late as the end of 1941 the writer was startled to see the frequency with which some senior officials approached a new problem by reaching for the slim volume of 1914-18 emergency legislation; it was an incidental, and not very common, manifestation of a firmly-embedded and largely unconscious attitude of mind. This was an important factor in determining the scale and direction of war plans which placed no great strain on a labour market marked by a large volume of unemployment, in which, to meet those plans, no far-reaching measures of compulsion, organisation or direction were required.

total demands had not been developed. Not until February 1940 was a survey available to the War Cabinet of expected calls for labour over the three years then conventionally taken as the basis of government planning. To quote any of the earlier sectional estimates is not very illuminating, and is misleading in suggesting that each service and factory had precise plans, and that all that was lacking was the arithmetic of combining them together. The three years' survey does give a clear picture of what, when schemes and ideas had been reduced to programmes, the Services and the Department of Supply really felt they needed:—⁴

Requirements to 30th June 1942

Department of Defence Coordination	162
Navy	25,024
Army	151,075
Air Force	54,627
Department of Supply and Development	17,396
	<hr/>
	248,284

Against these probable needs had to be set the available supply. This Cabinet agendum fell back on data from the 1933 census, pointing out that these disclosed a total male population of 3,337,111 of whom 1,280,089 or thirty-eight per cent were between the ages of 20 and 44, which fully justified the comment that "there would appear to be little doubt regarding our capacity from the manpower aspect to raise these numbers".

The use of 1933 census data arose from the lag in completing the analysis of the National Register, but it also pointed to the reason why such importance continued to be attached to that analysis. Australian statistics of births, deaths and migration were good, but they did not lend themselves to detailed adjustment of a census on an occupational basis for a date a number of years later.

THE NATIONAL REGISTER

When the National Register was taken it was found that 2,092,312 replies had been received, from an estimated number of persons liable to reply of 2,184,000, or nearly ninety-six per cent. The National Register Board, when it commenced operations in November 1939, five months after the register was taken, and after nearly three months of actual war, was confronted by all the difficulties of making effective use of the data then collected, and of keeping the register up-to-date. High hopes were entertained by Blamey: "the bulk classification will point out the weak spots in our manpower composition and the National Register will enable those weak spots to be investigated closely in relation to the requirements of the armed forces, munitions manufacture, essential services and industry

⁴ War Cabinet Agendum 43/1940. The figures were divided into "Skilled (Engineering Trades and Others), Unskilled, Administrative, Executive etc." The agendum also featured a break-up of the total figure as anticipated year to year, also in terms of administrative, skilled etc.

generally, and will greatly facilitate the appropriate allocation of all personnel."⁵

But these hopes had to be deferred. At the board's first meeting it was reported that completion of the tabular statements would not be possible before the end of the year. In April 1940 occupational tables were promised for May-June, but in fact only those for South Australia and Victoria were then available. It appeared, too, that analyses were required for which the data were imperfect. The army could be supplied only with lists of men "twenty last birthday" and not those whose twentieth birthday fell in 1938-39. The original index on an electoral division basis had to be converted to a State basis, but it proved impossible for the Statistician to supply data in respect of country towns. Attempts to keep the register up-to-date had to be confined to recording changes of address through electoral rolls.

In the event, therefore, its effectiveness was disappointing, but not negligible. As a statistical instrument it was imperfect but proved a useful guide in assessment of various aspects of the occupational distribution of population. There had been no census since 1933; three States only (New South Wales, Tasmania, Queensland) had reliable employment statistics, and these not on a basis satisfactory for war purposes, while the only Australia-wide data on employment by occupations were derived from trade union returns which covered only a part of the field and were subject to known defects. The register was therefore used as a first approximation in a number of surveys—for example in guiding the Manpower Committee in its revisions of the List of Reserved Occupations—and in various individual checks, such as registration of aliens, registration of young men for military service and the like. But it was an imperfect instrument and it became increasingly obsolete as the pattern of employment changed. As early as June 1940 the Statistician was asking for guidance about the probable future use of the register; the board did not meet after October 1940, although routine work on the statistical records continued for another two years.⁶

When, early in 1940, global figures became available, the register confirmed the picture, which indeed was so clear-cut that the census data were, at this stage, quite adequate. A quarter of a million required over three years; more than two million available. After the first impact of war there was something of an anticlimax in the contrast.

The emphasis on adult males, moreover, meant that no account was taken of reserves of labour, in particular of women. At the time, however, attention was concentrated not on the women, but on unemployed men. Unemployment was something which had bitten deeply into the consciousness of Australians in the early 'thirties, and was the spectre at all discussions of manpower issues in the first eighteen months of war. Just as a

⁵ Memorandum, May 1939 in Minutes of National Register Board 22 Nov 1939.

⁶ The registration of civilians in 1942 superseded the National Register, and Statutory Rules 1942 No. 353, 14 Aug, provided that "for so long as this regulation remains in operation sections 21 and 22 of the National Register Act 1939 are suspended". The Act itself was not repealed until 1947.

post-war world was to draw from the experiences of the early 'thirties a rigid acceptance of the dreary objective of full employment because employment was identified with income, so the men of 1939 accepted without discussion the view that unemployment was a problem which must not be aggravated by war policy, and the solution of which might even take priority over war measures. It was commonly believed at the time that many of the unemployed preferred the economic security and relative affluence of enlistment to continuance on the dole, and left-wing critics of the Government were able to sting with charges that the unemployed were being driven by destitution to risk their lives. There was particular concern about youth unemployment. In May 1939 the Commonwealth had made £200,000 available to the States by way of subsidy to schemes of relief. A conference of Commonwealth and State ministers in July proposed raising the school leaving age to fifteen, prohibiting factory employment below that age, and investigating a shorter working week. These were not the plans of a country contemplating total war.

Pre-war statistics of unemployment left much to be desired, being based on trade union returns. What they showed was:—

Industrial Groups:		Engineering, metal works, &c.	Food, drink and tobacco, &c.	Clothing, hats, boots, &c.	Building	Trade Union Unemployment in Aust.
Wood, furniture, &c.		%	%	%	%	%
Qr. ended 1938						
Aug.	13.7	5.5	19.6	10.6	7.2	9.2
Nov.	13.4	5.8	16.3	13.3	7.6	8.9
1939						
Feb.	15.7	7.5	16.0	14.0	8.8	9.8
May	16.4	7.9	18.3	12.6	8.0	9.7
Aug.	18.1	8.6	18.4	13.3	9.3	10.4
Nov.	13.4	6.8	16.6	9.6	9.2	9.4

Source: *Monthly Review of Business Statistics*

With the beginning of the war, even though enlistments and the growth of munitions reduced the total unemployed, many people were thrown out of work, and many more had reason to fear for their jobs. There was a natural and general disposition to defer plans for capital expansion, to wait and see before replacing men who enlisted; as the weeks went on interruptions to oversea supplies and other dislocations caused unemployment to mount in particular industries. In the atmosphere of the time the only manpower issue relating to overall numbers was unemployment.

In Parliament the Labour Opposition never ceased to press the issue both as a general matter and in relation to particular questions. Overtime work in munitions was challenged after only four days of war, because of unemployment, and privately in the Cabinet the Minister for Supply and Development was warning that inadequate defence orders might mean early

discharge of munitions workers. The first meeting of the recently reconstituted Financial and Economic Committee gave priority to the impact of war on employment, and in October 1939 described the question as "urgent". Commonwealth labour exchanges, compulsory notifications of dismissals, undertaking of low-priority defence works suitable for unskilled labour, assistance to local industries replacing imports, were all canvassed at this meeting, and the case for pushing ahead with defence works was urged on the Government, which responded with a promptitude which, remembering that unemployment had always been regarded as a State problem, indicated the political importance of the issue. In November £2,000,000 was provided for defence works, which it was stressed were not relief works but for "the relief of unemployment which has been created as the result of the impact of war".⁷ But serious sectional unemployment remained for months. That fact, and the great importance attached to it, must be constantly borne in mind. There was no general shortage of labour visible for several years ahead, so that in that sense there was no manpower problem; there was a sustained level of unemployment, much of it due directly to the war, and any manpower policy was compelled to adjust itself to that fact and all its political and social implications.

Especially was this true because the general adequacy of numbers of men concealed a critical shortage of skilled workers, primarily in the engineering and metal trades, required for the Services and for munitions production. There was no particular concern, nor apparently any need to be concerned, about skilled labour for industry, other than that primarily devoted to service supplies. But within the two major fields of the Services and the munitions industry, the available supply of skill was seriously inadequate. In part this represented the degree of development of manufacturing industry in Australia, complicated by the lost years of the economic depression of the 'thirties, when the numbers of entrants to skilled industry fell off. But mainly it represented, on the one hand the desire of the Services, especially the air force, to recruit for service work men already skilled, and on the other the scale and range of war plans for munitions, aircraft and supplies generally.

By February 1940 it was possible to get a general picture of the demand for skill. The figures of the Cabinet agenda mentioned above showed that whereas less than 15,000 skilled workers (in the Services and munitions) were engaged at the end of 1939, more than 10,000 were wanted in the next six months, and over 20,000 in the twelve months after that. This general picture was repeated in detail in particular occupations. Thus, for instance, in October 1939 the R.A.A.F. wanted to recruit 1,350 fitters with a further 1,700 if proposals for an air expeditionary force were approved; at the time the total number of engineering tradesmen in Australia was estimated at 19,000. A little later, in January 1940, the air force was forecasting ultimate needs for 18,000 mechanics, with 5,000 fitters already required, and complaining that only 226 had been enlisted

⁷ *Commonwealth Debates*, Vol 162, p. 1188, 16 Nov 1939.

in December. By February the boilermakers' union was reporting only 126 members unemployed out of a total of 6,211; the blacksmiths' only 17 out of 1,138.

The central manpower problem therefore appeared to be one entirely of skilled labour, and of only a narrow range of skills at that—engineering and metal trades, textiles, and a few others directly concerned with service supplies. Policy needed to aim at three inter-related objectives—of diverting to the Services and munitions skilled workers from less essential industries, of dividing them between the various services and munitions, and of increasing the total number of skilled.

THE LIST OF RESERVED OCCUPATIONS

The manner in which the List of Reserved Occupations was adopted on the eve of war for provisional application by manpower officers has already been noted. It was in effect applied as an emergency device for preventing indiscriminate enlistment of skilled workers, but mainly with the purpose of reserving a proper share for munitions. At this stage the conception of "essential industry" hardly extended more widely. It was therefore mainly aimed at the second objective, of holding the scales between the Services and munitions, but there were so many loopholes that for this purpose it was relatively ineffective. If men wanted to enlist the reservations did not stop them; not until the large call-ups after Pearl Harbour did the list place any major restraint on the Services.

In form the provisional list set out industries and, under these, occupations, against which were set the ages at which reservation applied. (The absence of an age implied reservation irrespective of age). Thus:—

Abattoirs and Butchering		
Foremen	}	25
Leading Hands		
Managers		
Boners	}	30
Retort Hands (Preservers)		
Slaughtermen		

The "explanatory notes" commented: "The purpose of the Provisional List of Occupations is to ensure that skilled artisans and others required for the maintenance of necessary production or essential services in civil occupations are not enlisted or called up for service in the armed forces, except for service in their technical or trade capacity."⁸ For administration, a manpower organisation was built up under the Manpower Committee, ultimately involving an officer in each area to "manpower" recruits and periodically to review exemptions. Although the list grouped occupations on an industry basis, in practice the list was interpreted occupationally. For example, motor mechanics aged thirty and over, listed under engineering, would, in general, be exempted irrespective of the industry in which they were in fact working.

⁸ List of Reserved Occupations (Provisional) Revision, April 1940, p. 2.

The practical effect of the list was much more limited than its terms suggest. As has been seen, it was introduced by administrative action; it was still being stamped "provisional" in an edition of April 1940. Indeed the Manpower Committee had only brought it to its final shape a month before war began, and one of the committee's most troublesome tasks was making amendments as the situation changed, and, initially, as the committee's information improved. Thus one of its early war meetings raised the age for reservation for fitters to forty-five in an effort to help the air force with its recruiting, and added metal trades apprentices to the list. Because the list was tentative it was apt to be misunderstood and misinterpreted, and there was a good deal of service hostility as a result. Even as late as January 1940 the air force member of the committee attacked the list, in apparent ignorance of the "trade capacity" rule. Such misunderstandings were apt to affect the efficiency with which reservation was applied.

Closely related was the question of the formal status of the list as merely an administrative arrangement. Section 61 of the *Defence Act* was for some time the only legal authority for exemptions, and a very restrictive view of exemptions under that section on occupational grounds had been taken before war began; the Act itself specified, for instance, members of Parliament and of the judiciary, ministers of religion, police and prison employees, medical practitioners and nurses. Not until December 1939 was the Minister for Defence Coordination empowered to grant temporary or permanent exemption on occupational grounds from the obligation to serve in the citizen forces, which meant that a general legal authority for the list existed.¹ The second step, a Reserved Occupation Order, giving specific detailed authority was delayed until the following March,² although this delay was largely formal, representing avoidance of the rigidity of a gazetted list while it was still tentative. Until then, however, the status and authority of manpower officers were open to question by strong-minded service officers.

The list, it should be noted, applied only to compulsory service in the citizen forces, not to voluntary service, and a proviso expressed a victory for the Services:—"if the Commandant of any Military District is satisfied that it is not necessary or not desirable in the interests of the defence of the Commonwealth that the exemption of any person to whom this order applies should continue, he may cause a notification in writing to be sent to that person, and thereupon the exemption of that person shall cease." In brief the list, legally, applied only to compulsory service (which excluded the navy, the air force, and the A.I.F.) and then only if the local commandant did not object. However, with Cabinet approval, it was extended by administrative action to the volunteer services, but with important qualifications.

The navy and the air force, in accepting the general principles of the list, nevertheless reserved the right to accept any volunteer. For all three

¹ Statutory Rules 1939, No. 177, 19 Dec.

² *Commonwealth Gazette*, 20 Mar 1940.

volunteer services the system placed no restriction at all on the man who wanted to enlist, provided his determination did not baulk at minor inaccuracy as to his occupation. For most occupational groups the minimum age of reservation was 25, and for many more it was 30 or 35. Moreover the reasonable principle was adopted that a man required by one of the Services in his "trade capacity" might be called up or enlisted; there was for long no check that he was in fact employed by the Services in that capacity. (The Manpower Committee was increasingly concerned that the same criticism applied with greater force to civilian industry.) A very vague provision that a volunteer might be accepted for a "higher capacity" than his civilian trade capacity meant, in practice, as its most important application, that anyone who could demonstrate the exacting qualifications for air-crew could be enlisted. In any case the "trade capacity" rule permitted the air force and the navy to accept almost anyone. During 1941 enlistments were usually permitted if the employer agreed to release the man in question. On the whole, therefore, until early 1942, the operation of the list conserved skilled manpower to an important extent only so far as compulsory service in the citizen forces was concerned, and even here much depended on the discretion of the manpower officers and the power of military commandments to override the order. In the first few months of war, exemptions of compulsory trainees averaged about 2.5 per cent of those called up, which is a fair enough measure of the effectiveness of the list.

In any case, for this purpose of conserving skill, the list could only serve to hold the position while other measures were taken to ensure that skilled labour was in fact used either in the Services or munitions and action developed to increase the total number of skilled.

INCENTIVES, TRAINING, AND DILUTION

Action to induce men to enter war industries was up against two major obstacles which were closely intertwined. First of these was the ghost of unemployment which meant that any action of a disemploying nature was extremely difficult to implement and policy which appeared to threaten the future security of skilled workers was suspect. This was part of the explanation of the extreme caution of trade unions, who were in any case wary of any departure from trade practices, standards for tradesmen status, the nature of the work on which various grades of skilled people might work, and so on.

The *National Security Act* of 1939 made no positive provision for the mobilisation of labour, but the central section, authorising government by regulation over a wide field, ended explicitly: "Nothing in this section shall authorise—(a) the imposition of any form of compulsory naval, military or air force service, or any form of industrial conscription. . . ." The same approach was expressed less sweepingly but more explicitly in the prior *Supply and Development Act* which, although passed in June, before war began, continued to limit the freedom of executive action. It concluded with a section reading, in part:

This section shall not be construed to empower the making of regulations—

- (a) depriving a trade union or any member of a trade union of any right conferred by any law of the Commonwealth or of a State relating to rates of wages or conditions of employment;
- (b) altering or affecting to the detriment of a trade union or a member of a trade union, any provision of an agreement between an employer and the trade union relating to rates of wages or conditions of employment;
- (c) restricting the freedom of any employee to change his employment;
- (d) altering to the detriment of any employees, or any trade union, any rule, practice, or custom in any industry; or
- (e) affecting the rules of any trade union.

These provisions remained unchanged until, following the collapse of France, the amending *National Security Act* of June 1940³ authorised regulations “making provision for requiring persons to place themselves, their services and their property at the disposal of the Commonwealth” for war purposes. But the removal of legal limits on powers to coerce and direct was followed by only modest measures of labour control; the basic political situation had not changed, and increasingly in the next months the Government was disintegrating. In short, the manpower story from the outbreak of war until late 1941 falls into two phases. Until mid-1940 there was explicit legislative prohibition on coercion or enforced lowering of standards of earnings or conditions of employment, with the National Register and the List of Reserved Occupations as the chief instruments of policy, and primary reliance on patriotism and self-interest. Thereafter, the sweeping away of all legal restrictions on action, was followed only by slow, hesitant, and cautious departures from the policy of voluntarism, limited to specific problems as they arose.

In relation to skilled labour, the lines of the solution worked out were four. First in order of time, and important throughout, was the use of incentives in the form of wage adjustments, improved conditions, protection from call-up and the like, designed to induce skilled workers to transfer to munitions production and to stay there. Second was the organisation of special training classes, in the first instance for the Services, which did not raise directly any trade union issues (and which were in any case regarded as first priority). Any wider training plans had to wait upon success along a third line, that of agreements with key unions for the relaxation of trade conditions, most importantly in the various dilution agreements. When these were achieved it was possible to develop training for munitions and allied industries as a means of increasing the number of partly-trained workers whose standard of skill measured up to that required for them to become dilutees. Throughout the principle was persuasion and inducement, not compulsion or restriction.

It is true that later, in the changed mood after the fall of France, the first Employment Regulations of July 1940 included restriction on the right of munitions workers who were paid special margins to change their employment.⁴ As this was framed originally, the employee was required

³ No 44 of 1940, 21 June 1940.

⁴ Statutory Rules 1940 No. 128, 5 Jul.

to secure either a release from his previous employer or the consent of the Director of Labour, a new office then held by Mr Chifley,⁵ in the Department of Munitions; without this an employer was forbidden to engage an employee. In September this was varied, the previous employer's consent, which, reasonably, was unwelcome to the unions, being eliminated, and the Department of Munitions' permits becoming the responsibility of the employer not of the employee.⁶ The purpose of the regulation was obvious from its form: to restrict casual movement of labour in search of better wages or conditions. But it did not extend beyond the classes of workers to whom special rates of pay were awarded, and while, therefore, so far as it was effective, it reduced unnecessary movement within the munitions industry, and prevented loss of labour to other types of industry, it did not encourage the inflow of recruits, for which reliance was placed on pay differentials and reservation. In practice it represented no serious departure from voluntarism.

The earliest example of incentive wages was an agreement between the Department of Supply and Development and thirteen unions, made before war began, for higher marginal rates and favourable conditions at munitions works at Footscray and Maribyrnong (Victoria). The outbreak of war led to the renewal of the agreement for three years from 4th December 1939. Its purpose was to attract workers with the necessary skill.

This established a precedent, which came to be more and more generally applied, that skilled workers could be drawn into munitions and related industries by the provision of special margins of pay, mainly for engineering workers. In addition to the extra payments made by the Government itself, it became increasingly general for private employers to make these special payments by agreement. Thus emerged the concept of what was formally known in Arbitration Court proceedings as "war loading" and which was given formal status in the first Employment Regulations.

The special margins were expressed as fixed rates, higher rates as well as lower being prohibited (with a saving clause for those already receiving more). As time went on the list of crafts entitled to these special supplements was extended in the engineering field, including, after February 1941, shipbuilding workers.⁷ They were not in accord with those fixed by the Arbitration Court in corresponding awards and extensive dissatisfaction was created. In effect, there developed a fairly considerable executive fixing of wages, outside the arbitration system, and to the embarrassment of the court.

That it would be necessary to expand the supply of skill by the systematic organisation of training was recognised from the beginning and as early as 25th September 1939 a conference of the Departments of Defence, Supply, Civil Aviation and Treasury initiated plans for training which

⁵ Rt Hon J B. Chifley. MHR 1928-31, 1940-51. Min for Defence 1931; Treasurer 1941-49; Min for Post-War Reconst 1942-45; Prime Minister 1945-49. Dir of Labour, Dept of Munitions 1940. B. Bathurst, NSW 22 Sep 1885. Died 12 Jun 1951.

⁶ Statutory Rules 1940 No. 206, 20 Sep.

⁷ Statutory Rules 1940 No. 287, 13 Dec. Statutory Rules 1941 No. 29, 12 Feb.

were filled out by a later conference between the Commonwealth and States. At this stage the objective set was comparatively modest, the training of 2,500 including 500 toolmakers. It was foreseen that ultimate needs would be far greater and arrangements were designed to permit expansion. Agreements were made between the Commonwealth and the State Governments, which were responsible for education and administered the main existing facilities for technical instruction, broadly on the principle that the Commonwealth would bear the cost of such training through State technical schools and colleges and government workshops.

The full development of the scheme, however, raised important questions of trade union policy, for it contemplated substantial additions to the numbers of those qualified to work in industries in which strong craft unions existed, with long-established policies in relation to standards of skill, period of training, demarcation of types of work and similar questions. For this reason the first stage in actual training concentrated upon the requirements of the air force and the army which undertook to enlist suitable people who could be given such training as part of their service, and without raising (at least directly) these trade union issues. The courses for aircraft fitters commenced on 18th December 1939 and four months later there were 1,855 air force and army trainees of whom 498 had completed training.

The expansion of the scheme to workers in munitions and aircraft production had to wait upon agreement with the unions and this centred on the question of dilution. The initiative was taken by Mr Murphy,⁸ Industrial Officer of the Department of Supply, who, in a similar capacity with the Munitions Production Board before the war, had been in the thick of preliminary manpower plans. He now took up with the Amalgamated Engineering Union the question of working out an Australian equivalent of the British dilution scheme.

The process of conference and negotiation was protracted but once this stage was over results followed quickly, justifying administrative action to commence training weeks before the formal agreement was signed. By January the Assistant Minister for Supply and Development, Mr Holt,⁹ was able to report agreement in substance, while at the end of the following month the Manpower Committee was notified of the assurances which had been given to the union "to preserve for the union its normal position in industry in recognition of its promise of wholehearted support during the war period".¹ A "Formula for Temporary Relaxation of Existing Customs to Overcome Difficulties due to Shortage of Engineering Tradesmen for War Requirements" was approved by the Cabinet on 11th March and on 8th May the formal agreement was signed between the Amalgamated Engineering Union, the Commonwealth, the Metal

⁸ R. J. Murphy, OBE, Contoller of Labour, Dept of Mun 1940-41; Asst Sec Dept Lab and Nat Service 1941-43; Sec Dept of Transport 1943-48. B. Yengarie, Qld, 16 Dec 1882.

⁹ Rt Hon H. E. Holt. MHR since 1935; Min for Lab and Nat Service 1940-41 and since 1949; Min for Immigration since 1949. B. Sydney, 5 Aug 1908.

¹ Minutes of Manpower Committee.

Trades Employers' Association, the Victorian Chamber of Manufactures and the South Australian Chamber of Manufactures Incorporated.

The procedure was understandable, for dilution involved departure from one of the most firmly-held principles of unionism: restriction of employment to fully-skilled workers. No dilution was to occur unless it could be shown that skilled labour was unavailable; no skilled man or apprentice was to be called up for military service except for use in an engineering capacity, and such men in the forces were to be discharged if their skill was not in fact used (a provision difficult to enforce, as has been seen in connection with reserved occupations). "Added" tradesmen under the scheme were not to be counted in determining the number of apprentices according to established proportions, a safeguard against long-range dilution. Where skilled labour shortage was established, a local committee—one for each State, with equal representation of employers and employees, and a Commonwealth chairman—might select men with some measure of skill and experience in engineering, for special training; only if sufficient persons with prior experience were available was the committee to admit other classes of trainees. In both cases trainees were to receive the basic wage during training and full award rates as soon as employed. Trainees and added tradesmen were registered and must be dismissed before any "recognised" (that is, trained in accordance with established apprenticeship procedure) tradesman; they must undertake to work wherever sent. Administration was vested in State local committees, supervised by a central committee of similar composition. The agreement ended with two illuminating reservations: an employer's rights under industrial awards etc. were preserved, and both parties agreed that the agreement should not be "used or cited in any proceedings before a Federal or State wage-fixing tribunal".

The wage conditions, it may be noticed, although clearly intended as protection of union standards, had the effect of inducing men to seek training. To an employer, working on cost-plus contracts, the wage-level was of secondary importance, and he was not likely to insist on a high level of prior experience or a long period of training before accepting a trainee who must be paid the basic wage, or putting a trainee on production where he would cost the full award wage.

Other agreements followed, but under the authority of a special regulation issued in May, which was replaced by part of a special set of Employment Regulations in July, the Minister for Munitions was empowered, if "the production of munitions of war or supplies required for the efficient prosecution of the war is likely to be seriously prejudiced by reason of a shortage of persons skilled in any particular trade", to make arrangements for training and the employment of trainees.² The need for the general authority is not evident, but any doubts were swept away by the words, "The training and employment of any person in accordance with any such arrangement shall be lawful notwithstanding anything contained in

² Statutory Rules 1940 No. 91, 24 May for 59A of General Regulations; Statutory Rules 1940 No. 128, 5 Jul for Employment Regulations.

any enactment other than the *National Security Act 1939-40*, or in any instrument (including any award, determination or agreement) having effect by virtue of any such enactment."

Agreements were made with the Australasian Society of Engineers in June; with boilermakers and blacksmiths in November; with metal moulders, electrical trades and sheet metal workers in October 1941. By May 1941, for reasons that are not clear, these various agreements were being embodied in formal sets of regulations, one set for each agreement.³ On one occasion in 1941 the Commonwealth Arbitration Court embodied a restricted dilution agreement in the furniture trades award, but this was outside the general dilution scheme.⁴

A second form of dilution was embodied in the Apprenticeship Regulations of June 1940.⁵ These were aimed mainly at protecting the rights of indentured apprentices who were enlisted in the armed forces, but provision was made that an employer might take on an additional apprentice in substitution, and that the proportion of apprentices to journeymen should be calculated by omitting apprentices absent on continuous service but including journeymen absent on war service for periods up to four months. The principle of apprenticeship dilution was extended in September 1941 by authorising suspension of apprenticeship conditions requiring attendance at schools and technical colleges during the final two years of apprenticeship.⁶

As has been seen, substantial agreement on policy and the training which it implied had been reached by March 1940 and training of civilians for munitions work in addition to those for the Services was begun without waiting for the formal agreement to be signed. The first course began on 18th December 1939; the first for civilians on 18th March 1940. By April the total trained or in training amounted to 2,770, and of these 634 were civilians for munitions and aircraft production; by the end of September 1940 the following results were presented by Mr Eltham,⁷ Director of Technical Training:⁸

Completed training to date:

Armed Forces	R.A.A.F.	2,294	
	A.I.F.	777	
	Permanent forces	109	
Munitions	Toolmakers	168	
	Tradesmen	274	3,622

³ Statutory Rules 1941 No. 102, 14 May (Engineering); No. 103, 14 May (Blacksmiths); No. 104, 14 May (Boilermakers); No. 252, 30 Oct (Metal Moulders); No. 253, 30 Oct (Electrical Trades); No. 254, 30 Oct (Sheet Metal Workers). A similar agreement for the boot trades grew out of a conference in September 1941, but did not take formal shape until June 1942, Statutory Rules 1942 No. 255, 4 Jun.

⁴ *Commonwealth Arbitration Reports*, Vol. 45, p. 445.

⁵ Statutory Rules 1940, No. 104, 7 Jun.

⁶ Statutory Rules 1941, No. 219, 12 Sep.

⁷ E. P. Eltham. Chf Insp. Tech. Schs, Vic. and Dep. Dir. Educ. 1930-46; Dir Tech Training 1939-46; Dir. Industrial Training, Dept. Lab and Nat Service since 1943. B. Boolarra, Vic, 15 Sep 1892.

⁸ By November 1941 27,128 had either completed or were undergoing training, 17,780 being servicemen and 9,348 civilians.

Now in training, excluding trainees in class waiting placement:

Armed Forces	R.A.A.F.	1,756	
	A.I.F.	142	
	Permanent forces	14	
Munitions	Toolmakers	214	
	Tradesmen	1,379	3,505
			7,127

In the early months of 1940 it was becoming clear that the problem of manpower, insofar as it received government attention, was being transformed into a problem of labour relations. The shortage of skilled workers was a continuing one, reflected in the regular modification by the Manpower Committee of the classes of workers subject to reservation and

INDUSTRIAL DISPUTES

Year	Coalmining	All Other Industries	Total
Numbers:			
1938	314	62	376
1939	362	54	416
1940	286	64	350
1941	395	172	567
1942	447	155	602
Workpeople involved:			
1938	122,379	21,575	143,954
1939	137,792	15,038	152,830
1940	167,840	24,757	192,597
1941	141,235	106,872	248,107
1942	112,031	57,232	169,263
Working days lost:			
1938	928,860	409,134	1,337,994
1939	291,067	168,087	459,154
1940	1,371,382	135,870	1,507,252
1941	275,605	708,569	984,174
1942	177,565	200,630	378,195

Source: *Commonwealth Year Book*

the ages at which reservation applied. There was a scheme, which in the end came to little, for releases from the Services of skilled men who were willing to accept employment in munitions. This arose out of the increasing conflict between the Services and the Munitions organisation over the disposal of the limited supply of skill; Munitions claiming, with some justice, that the Services were not fully utilising the skill which they recruited, in some measure because the supply of equipment was held down by the lack

of skilled labour for its production. The Services on the other hand were disposed to take the view that it was their responsibility to secure trained men to fill their establishments, an attitude in which they were strengthened by the failure of the Government to ensure that skilled workers in civil industry were used for essential tasks or diverted to munitions. There was still no overall manpower problem—it was not until 1941 that this took shape. The Manpower Committee continued to stress that a general shortage would come, and to plead for some organisation for the allocation of labour to civilian industry, but with little practical effect. The committee raised, too, the question of priorities in civil industry, but what received attention at the highest level was industrial relations.

Measured by their number and range, industrial disputes, except in coal, were not serious. The broad statistical picture, however, was much less than the full story. There was constant minor friction and more important, a general suspicion in the trade union movement of the purpose and sincerity of the Government, complicated by the disruption of the Labour Party at this time.

The major upheaval was in coal where a ten weeks' strike between March and May 1940 was important not only because of the serious disruption which it created in industry generally, but because it presented in clear-cut and unqualified form issues and attitudes which simmered elsewhere. The central issue in the dispute was hours of work, an award having conceded a forty-hour week to all underground workers, while setting those for surface workers not in direct contact with coal at eighty-six a fortnight.

A forty-hour week was a long-standing objective of the union and persistence in it at this stage of the war highlighted the way in which unions generally continued to think in pre-war terms and were disposed to see the conditions of war as strengthening their bargaining position. The Government, which in any case was not likely to appreciate the state of mind of the unions, was concerned with the holdup in production at what they knew was a critical stage of the war, the eve of the German thrust into the Low Countries. This explained its somewhat unfortunate approach to the dispute; the attempt to use non-union labour and the repeated vigorous condemnation of the miners might have precipitated a disastrous situation had not the German armies overrun Western Europe. This produced, a few days before Dunkirk, a compromise solution in which both sides reverted to the *status quo* subject to re-examination of the issue by the Arbitration Court.

In its handling of the general question of labour relations the Government was primarily concerned with the avoidance of stoppages of work which would interrupt the flow of the Services' supplies which were coming forward in disappointing quantities. It sought to minimise disputes by action along a number of lines. Where there were demands from groups of key workers, *ad hoc* concessions were usually made, as in the case of the war risk bonus for seamen and increases in pay for waterside workers and metal workers. There were serious efforts to conciliate labour and con-

vince it of the sincerity of the Government, particularly by suspension of the *Transport Workers Act* and the setting up of a Trade Union Advisory Panel. From time to time the Government felt its way towards organisational changes aimed at simplifying procedure, as in the appointment of a Director of Labour in the Department of Munitions. There were changes in the procedure and in the range of jurisdiction of the Commonwealth arbitration machinery, intended to speed up the settlement of disputes and to give the court wider fields of authority. The culmination of this approach was the belated creation of the Department of Labour and National Service, designed to draw together in one unified organisation the task of dealing with all issues of labour supply and labour relations.

The other main line of approach was the emergence of a wages policy built on the principle that groups of workers in war industries might be given, for reasons specially associated with the war, rates of pay above those paid in similar occupations in other industries. Taken as a whole it was not a clearly integrated policy but rather one which developed piecemeal as a result of the attempt to meet each case of dissension and dispute as it arose, always with the emphasis on avoiding delay and disorganisation in the production of war supplies.

It was symptomatic of the concern that the Government felt for avoiding holdups in essential work that a number of disputes, in themselves of small range, were nevertheless the subject of Cabinet decision. Thus for instance, in August 1940 the Cabinet discussed the question of seamen under Australian articles serving outside Australian waters, and decided that they should receive war risk bonus but should not, when away from Australia, be paid in sterling or be exempted from income tax. On a number of occasions Federal ministers personally visited the scene of disputes as in the case of Darwin. Towards the waterside workers the Government displayed its desire to improve relations by agreeing to the suspension of regulations made under the *Transport Workers Act*. This Act was repugnant to members of the waterside unions to whom it was known as the "dog collar" Act because the chief point was the licensing of waterside workers. This had arisen out of a bitter dispute in 1928 when non-union labour was extensively recruited and was given security of employment by the licence system. Shipowners were opposed to the repeal of the Act because they feared it meant reversion to the conditions of 1928. There were general objections that the licence system was an instrument for preventing a return to the uncontrolled casual dock-labour system. For these reasons the Government delayed from January to August the taking of the decision and then proceeded cautiously by leaving the Act in operation but suspending for an unspecified period the regulations made under it.

Great importance was attached by the Government to the establishment of a trade union advisory panel, to be constituted of representatives of the leading unions and union organisations, to improve relations by advising the Government how to proceed in relation to organised labour, and by interpreting government policy to the unions. This proved extremely difficult to achieve because of the complexities of union organisation and the

intricacies of trade union politics. The Government first sought to operate through the agency of the Australasian Council of Trade Unions with which, however, unions in Western Australia and a number of large unions in key industries elsewhere were not affiliated. At a critical stage the Prime Minister lost patience and agreed individually with leading unions not affiliated with the A.C.T.U. to constitute a panel of representatives of those unions, but leaving open the question of A.C.T.U. members. While the Menzies Government remained in office the panel was used seriously, but was hampered by the circumstances in which it was established, the more so as the Government's action was seen by many labour leaders as an unskilful attempt to play trade union politics with the objective of creating disunity among the unions.

Nevertheless the panel, initially consisting of representatives of six unions,⁹ was regularly consulted by the Government which heeded its advice on a number of points such as transfer of midweek holidays to Mondays; and, by direct negotiation, it assisted settlement of a number of disputes, although in these proceedings compromise was facilitated by the fact that the disputes involved unions primarily or indirectly represented on the panel.¹

The inclusion of a Director of Labour among the eight directorates created when the Department of Munitions was established, was significant. The munitions organisation, from the beginning, had elected to recruit its own labour; in fact, as has been seen, in the early months the problem of labour supply was generally regarded as almost exclusively a problem of supply to munitions. In the new organisation the policy was continued, State labour exchanges being employed except in Victoria, where a separate office was established. The important departure, however, was the appointment as director of Chifley who had been Minister for Defence in the Scullin Government, and who, although not in active politics since the disintegration of that Government in 1932, was trusted and respected throughout the Labour movement. As Director of Labour he was working with Murphy, now appointed controller of the directorate, who had been concerned with the whole question of labour supply and labour relations in munitions since well before the war.

The whole of this approach to industrial relations by the Government took place quite apart from the established arbitration machinery. Legally speaking, the central authority for the regulation of industrial relations by a system of conciliation and arbitration was the Commonwealth Arbitration Court. Many of the issues with which the Government was dealing were not of the kind which could come before the court unless they were allowed to develop to the point where there was, in the legal sense, a dispute extending beyond the limits of any one State. In the really important issues, such as an actual strike, the disciplinary powers of the

⁹ Australian Workers' Union; Amalgamated Engineering Union; Maritime Transport Council; Road Transport Union; Textile Workers' Union; Electrical Trades Union. The Panel's first meeting was on 9 Aug 1940.

¹ See further discussion of the Panel in P. Hasluck, *The Government and the People 1939-41* in this series.

court were inappropriate for dealing with rejection on such a scale of decisions by the court itself. Moreover, the arbitration machinery was still working at its peacetime speed. Despite the appointment in December 1939 of additional arbitration inspectors, the change did not touch the main problem of industrial peace. In any case, so far as its formal judgments show, the court itself was slow to develop a distinctly wartime set of principles, although no doubt its interpretation of its established procedures and principles to fit wartime conditions was not fully reflected in the terms of its decisions.

Thus, for example, in the coal hours decision which preceded the coal strike, the court made no reference to the war, still less to the possibility that reduction of hours which was awarded might hinder the achievement of maximum war production; in the shipwrights' case in November 1939 approval was given for shift work in view of the "state of national emergency". In the waterside workers' case in the same month a minor variation in the award was justified by Chief Justice Beeby² thus: "the country is at present passing through a very critical period and my main concern is to ensure that industry keeps running as smoothly as possible."³ In December the court arranged to expedite the usual periodical adjustments of the basic wage in the light of changes in the cost of living because, apparently, of the speed with which at that time prices were rising. Again, the aircraft industry award at the end of 1939 was justified because the court should in every possible way facilitate the rapid training of men required for "an industry which is expanding and is likely to continue expanding for some years to come".⁴

Early in 1940 the metal trades award was varied to facilitate the training by Broken Hill Proprietary Company Limited of apprentices employed in shipbuilding because the industry was "of the greatest importance to Australia".⁵ In a number of cases approval was given for the temporary employment of women on men's work where such shortages were created by military service. Similar reason was used to justify variation in the hours of work for women in textiles although Judge O'Mara's statement of his reasons involved peacetime considerations: "it is clear that males are unavailable for this work and that unless female employees are engaged the result will be a loss of employment for a large industry and a loss of export trade in an important commodity."⁶

In the metal trades holidays case late in 1940 the court specifically raised the question whether the extension of paid holidays for employees in shipbuilding and munitions was an appropriate course to follow in the middle of war, but since the Government had not responded to the invitation to argue this point the court approved of paid annual leave for the employees concerned.

² Hon Sir George Beeby, KBE. Judge NSW Arbit Court 1920-26; of C'wealth Arbit Court 1926-42, Chief Judge 1929-42. B. Sydney, NSW, 23 May 1869. Died 18 Jul 1942.

³ *Commonwealth Arbitration Reports*, Vol. 41, p. 205.

⁴ *Commonwealth Arbitration Reports*, Vol. 41, p. 659.

⁵ *Commonwealth Arbitration Reports*, Vol. 42, p. 324.

⁶ *Commonwealth Arbitration Reports*, Vol. 42, p. 444.

No doubt the judges considered the conditions of war to a greater extent than the terms of this judgment would suggest, but no doubt rightly they assumed, as in the last case quoted, that it was not their function to modify conditions of employment on their own initiative to meet the needs of war. The combination of factors, namely the limited range of the court's authority, the difficulty of applying its established machinery and principles to the special problems of war, reluctance of the judges themselves to adapt the machinery, and the constitutional limits of the issues that might be referred before the court, led as early as April 1940 to proposals to overhaul the whole system, the emphasis being on the need for speedy action with a minimum of adherence to legal forms for the purpose of settlement of disputes while they were still in their early stages.

Other methods than amendments of the arbitration system were tried first. There were the efforts to secure the cooperation of the trade union panel, which according to the original plan might have dealt with the kind of friction which concerned the Government, while leaving the main structure of arbitration untouched. In July 1940 there were the first employment regulations which, apart from the unfortunate introduction of the leaving certificate which was quickly abandoned, gave special concessions in rates of pay to munition workers. The main problem as seen by the Government was still that of maintaining continuity of production in munitions and similar industries, and if this could be achieved by limited action it would not be necessary to make general changes in arbitration. The very extent of the changes which were finally made would have dictated caution; however, in the end the original plan of April for major changes in arbitration was adopted, following a statement by the Advisory War Council on 30th October, and incorporated in regulations.⁷

The jurisdiction of the court was enlarged so that almost any actual or potential dispute could be considered by it. The statutory (and constitutional) limit to disputes "extending beyond the limits of any one State" was removed. The court might investigate any dispute which the court itself thought, or the Minister for Labour and National Service certified, was "proper to be dealt with in the interests of industrial peace and national security". Conciliation commissioners (the number of whom was increased) might of their own motion investigate any dispute which "has arisen, or is threatened or impending" and report to the court or one of its judges, who might thereupon bring the dispute before the court, despite the fact that otherwise the court might have no authority to deal with the dispute. Any organisation or an individual employer might (nominally must) report any actual or threatened dispute, whereupon it came within the court's jurisdiction. The court itself might intervene on its own motion whenever it chose. In short, no actual or possible dispute was beyond the court's cognisance.

The court was authorised to appoint boards of reference for particular industries and, if it thought fit, to delegate not only all its powers of inquiry but the power to make awards with full legal effect. Equally sweeping was

⁷ Statutory Rules 1940, No. 290, 17 Dec.

the elimination of restrictions on the court's power to deal with disputes brought before it by this dragnet process. The court was empowered to interpret any Commonwealth law relating to wages or conditions of work in its application to any industry, group of employees or individual. It might—and this was a vital departure—make a “common rule”, that is an award expressed as binding on parties other than those involved in the actual dispute, extending to the whole industry, or part of it, or a group of industries. It might also make an “industry award”, that is an award not necessarily limited to the matters in dispute. The only restriction on the declaration of a common rule or industry award was to be publicity of the court's intention to consider such, so that interested parties might appear in court. Any award of the court remained valid even though it covered matters not the subject of the dispute in question, or there had been informality in procedure, or the proceedings had “been conducted in a manner other than by conciliation and arbitration”, the last a frank authorisation of any action which would avert a stoppage of production.

The peacetime powers and principles of the arbitration system, carried over into war, had been something of an embarrassment to the Government, but the wages policy pursued by the Government had been and was to continue to be an embarrassment to the court. Basically the Government's policy was the simple one of using wage inducement to attract labour into the limited range of industries with which as yet the Government was concerned, and to preserve peace in those industries. As a short-run policy it was fairly successful because of the conditions under which it operated, and in retrospect it was probably the appropriate policy for the time, although it was evolved not as a conscious and comprehensive view of the issue but as a simple reaction to immediate problems.

For many months after war broke out there was no general pressure for an increase in the level of wages. There was and continued to be a considerable amount of unemployment, and the policy of wage inducements in munitions drew labour from less essential industries where vacancies were filled from the unemployed and from women, without raising any serious issues of wages in those industries. An important factor in the early stages of price control was the recognition by the Prices Branch of the repercussions through the basic wage of any general rise in price level, an approach which had a good deal to do with the emphasis on restricting the effect of what was then the main source of price increases, the higher cost of imports. Apart from this approach by the Prices Branch there was no consideration of the general level of wages nor of the need to restrict a general rise. In these circumstances it was possible for the Government to pursue its sectional incentive policy with some success in its immediate objectives and without important repercussions in the labour market as a whole. This was, however, at the cost of making it difficult to resist labour pressure for the generalising of the principles applied to munition workers or to develop techniques of wage control which could be effective.

The beginnings of the government policy in munitions have already been noted. When, nevertheless, the supply of skilled labour proved inadequate and dilution agreements were negotiated, attractive wages were one of the central conditions—the basic wage for a trainee and full tradesman's rates for an added tradesman. This in turn led to a further problem. Final-year apprentices received less but were normally more fully trained than the added tradesmen. Accordingly conditions for improved pay for apprentices were incorporated in dilution regulations. These appeared first in the boilermakers and blacksmiths regulations under which fifth-year apprentices received the full tradesmen's rate.

Naturally there were protests from engineering apprentices, and amending regulations authorised tradesmen's rates for fifth-year apprentices in establishments where an added tradesman was employed.⁸ This grudging concession meant a heavy financial penalty on the employment of added tradesmen and the proviso was removed a month later.⁹ Electrical trades apprentices did not receive tradesmen's rates until May 1942.¹ Sheet metal apprentices received tradesmen's rates only where added tradesmen were employed,² and metal moulders at no time received these rates. In short there was no uniform principle in these apprenticeship increases, other than that of yielding where shortage of labour was acute.

In July 1940 the Employment Regulations extended the principle of special inducements in the production of munitions and aircraft by specifying special allowances of 3s per week for such employees. The range of occupations which enjoyed these margins was extended in December and again in February and April 1941. The wages so prescribed were both maxima and minima. The origin of the policy was thus explained:

When we found that we must expect a shortage of highly skilled tradesmen in the metal trades, conferences were held between employers and employees at which it was agreed that some dilution of labour should be permitted, subject to safeguards to be incorporated in an agreement between the employers, the employees and the Government.

By fixing a maximum wage we hoped to keep the munitions bill down to reasonable proportions, instead of having it unduly increased by competition among employers for skilled workers who were in short supply. As the Government was the only purchaser of the goods produced by these men, the total cost of such competition would fall upon the Government, as the manufacturers would pass it on. However we considered that it would not be fair to ask tradesmen, who were thus being deprived of the liberty to sell their labour in the highest market, to work for the minimum rate prescribed under the award. Consequently, the Government discussed the matter with representatives of the employees, who, to their credit be it said, had no wish to make undue profit by exploiting the war situation, and it was agreed that an increase of 6s. should be granted on the award margin. In New South Wales this meant an actual increase of 3s. only, because the employers there had already voluntarily granted an increase of 3s.³

⁸ Statutory Rules 1941, No. 255, 30 Oct.

⁹ Statutory Rules 1941, No. 283, 3 Dec.

¹ Statutory Rules 1942, No. 234, 14 May.

² Statutory Rules 1941, No. 254.

³ *Commonwealth Debates*, Vol. 166, 25 Mar 1941.

From this executive action grew the practice of the granting of "war loadings" by the Commonwealth Arbitration Court (and State tribunals), the first being to metal workers in May 1941. On that occasion Judge O'Mara declared:

There evolved from these [Employment] regulations a position of wage fixation which to say the least of it was indefinite and discriminatory. The line drawn between the work for which the regulations had prescribed the higher rates of pay and other work was one by no means easy of ascertainment, and whatever may have been the experience of the Executive in administering these regulations, they presented the Court with many problems which to an extent they prevented it from solving. Wage discriminations were set up for which there appeared to be no justification, and in some instances I had to hold that skilled employees engaged in work essential for the production of raw material for the manufacture of munitions were not entitled to the regulation rates while the process workers who were later working on such material were subject to the regulations and entitled to the additional rate thereby prescribed. The anomaly of this position is emphasised by the fact that there was little, if any, difficulty in securing process workers, while there was definitely a shortage of the skilled operatives referred to. It appeared that to maintain the discrimination made by the regulations both as to maximum rates and transferability of labour would lead to further disputes and discontent, and would have to be dealt with either by further amendments to the regulations or by award of this Court. In these circumstances I convened a conference of the parties to the Metal Trades disputes, and suggested that they might well consider settling the wages claims on the basis of the regulation rates being prescribed by award irrespective of whether the work was civilian or munition work.⁴

Agreement being reached, the award was then made, thus solving this particular problem, but at the cost of partially nullifying the wage-attraction to munitions employment which had been government policy.

Like the first, most of the war loadings were with the consent of employers, and were apart from the ordinary basic wage and margin, and therefore not adjusted with price changes. It was popularly believed that the court's normal loading was 6s per week, although in fact it was more usually 3s (6s was the maximum).

Broadly, loadings were approved when it could be shown that employees were suffering some material disadvantage directly arising from new war-time conditions of employment. Many applications were refused because this could not be demonstrated. Thus the transport workers advanced six grounds for a loading: obligation to contribute to wartime charities, price increases, weakened union bargaining position, strain and extra time involved in wartime work, the essential nature of their work, and the dissatisfaction of members employed by businesses some of whose other employees received loadings. All claims except that of strain and extra time were dismissed.

Nevertheless the range of workers to whom loadings were conceded steadily expanded: metal workers, coachmaking, food preserving, agricultural implements, paper mills, railway workers, saddlery, road transport, rubber, textiles, plumbers, marine cooks, bakers, butchers, gasworkers, coalminers, carpenters and many others. By mid-1942 war loadings were

⁴ Metal Trades Award, *Commonwealth Arbitration Reports*, Vol. 44, pp. 567-8.

enjoyed fairly generally. These war loadings were apart from wage increases approved by the court for normal reasons.

By amending Employment Regulations of July 1941 the jurisdiction of the court over wages fixed by executive action was restored.⁵ It was laid down that if an award was made of rates equal to or greater than the regulation rates, the regulation rate should cease to apply, but employers were forbidden to offer wages or conditions better than those set out in such an award, except for certain established types of special payments (for example "merit money" which, for munitions workers, required approval of the Minister for Munitions), and excepting also any excess payments which were already being paid. Over the following months a number of trades in this way returned to court control, subject to the maximum limit set by the regulations, until executive fixation of specific rates was of little importance.

Because of the increased risk and responsibility and the greater discomforts of wartime sea transport, a series of special allowances was made to ships' crews. In March 1940 special increases were granted of 10 to 12½ per cent for oversea and interstate vessels and 5 per cent for intrastate ships. In December these were increased to 20 per cent for interstate and intrastate vessels, and 25 per cent for oversea ships, and in February 1941 a special additional allowance of 10 per cent was made to employees on ships carrying explosives.

Broadly then, the wage increases of 1939 to 1941 made a pattern of increases and bonuses as an inducement to attract workers to essential industries, and to keep them there; increases spreading through the whole of non-rural industry by the early part of 1942, but without evidence of any other policy behind them. Increasingly the disparities and anomalies were spreading pressure for increased wages and creating the seeds of a wage-inflation which would demand comprehensive action.

THE DEPARTMENT OF LABOUR AND NATIONAL SERVICE

In the light of the emergence of wartime labour questions in 1940 it was inevitable that discussions should turn to the creation of a central administrative authority which should handle all wartime manpower and labour issues. It was in one sense an obvious and sensible deduction from the problems being thrust on the Government and the specialised but uncoordinated agencies dealing with particular parts of the problem. But it was brought into focus on the one hand by the Manpower Committee's reiteration that manpower was more than a question of munitions, and on the other by the reflections of some senior public servants on the applicability of British experience to Australian problems.

These ideas crystallised in a proposal, put forward under the name of Dr Roland Wilson,⁶ for a Department of Labour and National Service. This fairly described the existing structure for handling labour questions as "a

⁵ Statutory Rules 1941, No. 151, 8 Jul.

⁶ Dr R. Wilson, CBE, C'wealth Statistician and Economic Adviser to the Treasury, 1936-40 and 1946-51. Sec Dept Labour and Nat Service 1940-46; Sec to the Treasury since 1951. B. Ulverstone, Tas, 7 Apr 1904.

constellation of predominantly pre-war and part-time committees and boards . . . perhaps adequate enough for the pre-war investigational stage".⁷

This constellation comprised: the Manpower Committee and the National Register Board in the Department of Defence Coordination; a Director of Training, with advisory committees in the Department of Supply; a Director of Labour Supply and Regulation and a Controller of Welfare in the Department of Munitions. It was also being proposed that there should be a committee to advise the Manpower Committee on the demands of civil industry. There was a trade union advisory panel with sub-panels for liaison between the Government and the unions. There were the various dilution committees. Special wartime functions or wartime expansion of ordinary activities had fallen on the Arbitration Court and State industrial tribunals, on the State Government labour exchanges, on State departments of Labour, especially in factory welfare work, and on Commonwealth and State Statisticians in furnishing statistical data. This medley of authorities could have no common or unified view of the main problems of the use of labour and a great deal of "coordination" was involved in dealing with all but the simplest problems. It was an administrative organisation which reflected the general approach to labour questions—each was taken *ad hoc*. If an existing instrumentality was capable of handling the particular problem seen in isolation, well and good; if it were a new problem, a committee was created. The approach and the administrative solution were not peculiar to labour, but it was becoming increasingly clear that manpower was a single set of problems and demanded a unified administrative organ.

Substantially on the lines set out by Wilson a new Department of Labour and National Service was established as from 28th October 1940, although its effective functioning required some months of organisation.⁸ Explaining the new department the Minister, Mr Holt, said:

The principal functions . . . relate to matters of general labour policy, manpower priorities, investigations of labour supply and labour demand, the effective placement of labour, technical training, industrial relations and industrial welfare, and planning for post-war rehabilitation and development.⁹

Seven divisions were forecast: employment, industrial relations, industrial training, industrial welfare, record and analysis of employment and manpower statistics (absorbing a special research section in the Bureau of Statistics established a year earlier), national services, and reconstruction. The national services division was the first step in a plan for "a national service movement" which the Government wished to launch early in 1941, to coordinate the various competing voluntary movements: the Red Cross Society, war savings groups, the national fitness movement, comforts funds, and others.¹ The Reconstruction Division was an afterthought in December,

⁷ Financial and Economic Committee papers, No. 13g, 23 Jul 1940.

⁸ *Commonwealth Gazette*, 28 Oct 1940. The existing Department of Industry was absorbed.

⁹ *Commonwealth Debates*, Vol. 165, pp. 691-7, 10 Dec 1940.

¹ This, and not some more general reference, is the import of "National Service" in the department's title; note that Wilson's preferred "Manpower" was replaced by the traditional "Labour".

responsible for investigations and planning for the transition from war to peace.

But these were plans on paper, and seven months later the Parliamentary Manpower and Resources Survey Committee could write in vigorous terms that "the creation of the Commonwealth Department of Labour and National Service in October 1940 has not yet brought about that condition of coordination which is essential to the efficient administration of labour problems and the effective utilisation of the nation's manpower".² At that time the department was still seeking a staff to take charge of its key divisions; it had only just secured offices in Sydney and Melbourne where, clearly, would be its most important fields of operation. The committee fell back on a recommendation for the appointment of a coordinator-general of labour and of technical training, with sweeping powers.

The slowness with which the conception of a Commonwealth department of labour was realised in practice arose from a combination of diverse factors. The proposal was unwelcome to several of the existing authorities not so much because they saw a loss of their own authority as because they still saw the problem as one which did not require such a comprehensive organisation. In particular the Department of Munitions continued to think of labour almost exclusively as labour for munitions and saw the new department as making its own task more difficult; while the Treasury was still thinking in terms of pre-war constitutional functions which left all questions of employment to the States. (It was for these reasons that the proposal of the new department was initially discussed in the Financial and Economic Committee where the main departments likely to be critical of the scheme were represented.) Another difficulty was that the States had always regarded themselves as responsible for labour policy and had long-established departments of Labour, which were actively engaged in many of the questions assigned to the new department and were exceedingly jealous of their functions. It was unfortunate that the senior staff of the new department were not temperamentally equipped for the difficult and tedious negotiations necessary to establish a basis of cooperation between the new department and the State authorities, which would need to be employed for investigating and administrative duties within their own areas and whose independence and authority in established fields had to be respected. Moreover it was inevitable that many of the early recruits to the new department should lack experience and knowledge of detail which State officers had at their fingertips, and this did not dispose the State departments to yield readily to the newcomer.

Apart from all this there were difficulties of personalities and an excessive centralisation of executive authority, coupled with the very extensive range of functions which the department was supposed to perform. (The reconstruction division, for instance, absorbed in somewhat futile work a number of good officers.)

² Manpower and Resources Survey Committee, First Report, 8 May 1941, para 129.

The strictures of the Manpower and Resources Survey Committee were therefore a fair description of the very slow development of the plan which the Government in the elections of September 1940 had given a high place in its platform. The department never did function effectively in the more distinctively wartime problems of manpower and especially of manpower priorities. Its main activities, as they developed, were primarily in the traditional fields of State departments of Labour, and were concerned with the implementing of Commonwealth-wide policy in such matters on a uniform basis in application to the form these problems took in wartime.

CHAPTER 8

EARLY PROBLEMS OF SUPPLY

IF the demands of war are regarded as transcending all others, the task of "supply" is the role of the civilian economy in war. But the closeness of civilian and soldier at this point has another aspect. To the Services it is apt to appear axiomatic that the claims of war are paramount and that it is the duty of the civilian to adapt the economy to war needs. To the civilian it may appear that the demands of the Services go too far; he may feel, however conventionally he pays lip service to the doctrine of an all-in war effort, unacknowledged and even unformulated resistance to the conflict between war demands and the activities of civil life. This dual relation of the civilian to war, as servant and victim of Moloch, runs through the whole story of the war economy. In the early stages it was least apparent, for the demands of war on the economy involved no great strain; for most civilians it produced enlargement not restriction of living standards. Individual advantage and national service marched hand in hand in the provision of "supply".

This task of "supply", the most vital allotted to the civilian economy, until 1939 had been under the administrative control of the Defence Department. There—while the role of the fighting forces was little more than garrison duty—it was possible for one group in the administration to attend not only to the "civilian" role of supplying the goods but to the Service role of using them. Administration of the "civilian" role had been the first considered too extensive for this arrangement, and only three months before the war began had become the concern of a single new department—Supply and Development.

The purpose of the new administrative authority—in its simplest form—was the "nature and scale on which the armed forces should be equipped" but within this general concept of supply there was a rough division apparent: supply meaning munitions (arms, ammunition and purely warlike equipment either manufactured locally or imported); and supply meaning any other type of equipment which might be needed (clothing, camps, vehicles, foodstuffs). And this rough division was expressed in the division of the Department of Supply and Development where "munitions" tended to operate in one section and "supplies of any other type" in another. This early rough division was the basis for the later separation of the Department of Munitions from that of Supply, a separation which not only corresponded to the realities of departmental organisation, but, within that organisation, had been contemplated for some time, despite the appearance of rude surgery which accompanied actual separation.

A brief review of the organisation of the Department of Supply and Development immediately after the outbreak of war is a convenient method of indicating what were then regarded as the tasks of "supply" in wartime.

The three original Defence Department Committees had been: the Munitions Supply Board (concerned with the organisation and management of government munitions factories); the Contract Board (concerned with the procurement of supplies which were within the capacity of commercial industry to manufacture without government assistance); and the Principal Supply Officers' Committee (concerned with the adaptation of civilian industry to the supply of wartime needs—investigation of firms, the armament annexes, foodstuffs and fuel enquiries etc.).¹ These were maintained, although only one retained its name, and the sections which evolved in the Department of Supply and Development were known as: the Board of Factory Administration, the Contract Board and the Defence Supply Planning Committee;² their functions were similar to those of the earlier committees. In addition a section was provided for aircraft construction, in the person of a General Manager of Aircraft Construction.

In view of the later extent and importance of munitions development, some of the early features of this section of "supply" should be noted. There was something of a tradition behind the development of munitions and this was aided by the presence of men who had led that development from its beginnings before the 1914-18 war. Mr A. E. Leighton,³ Mr N. K. S. Brodribb,⁴ and Mr J. K. Jensen⁵ (the last-named wrote the history of munitions production in the earlier war⁶) had continued to plan for this section of defence in the inter-war years, and to promote, along lines they had considered best, the growth they had seen begun. Moreover, the manufacture of such warlike equipment was of necessity closest to the "heavy" industries—steel, engineering, chemicals—all of which represented heavy capital investment and considerable industrial power. At this point another factor became important—the personality and interest of Essington Lewis, already a dominant figure in the steel industry; ambitious for the future of Australian steel; and confident of the ability of the country to develop capacity for the manufacture of heavy armament. A combination of fortunate circumstances—Leighton, Brodribb and Jensen inside the administration, Lewis without, all working to the same end, and, as will be seen when the combination was at its height, speaking the same language—was able to secure the best of both government and private manufacture's effort.

Up to the time when the Imperial Conference of 1937 had provoked firm decisions about rearmament, and especially the decision that the Dominions should depend on their own manufacturing resources for muni-

¹ The Advisory Panel on Industrial Organisation continued its role of consultant to the Minister and, in a general way, supervised the work of the committee.

² Statutory Rules 1939, No. 97, 21 Sep.

³ A. E. Leighton, CMG, Gen Manager Aus Arsenal 1916-22; Cont-Gen Mun 1922-39; Consultant on Explosives, Dept of Mun 1940-46. B. London, 17 Jun 1873.

⁴ N. K. S. Brodribb, CBE, Chemical Engineer, Dept of Defence 1909-37. Cont-Gen Mun Supply 1937-40 and since 1945. Asst Dir-Gen Munitions 1940-45. B. Kew, Vic, 27 Dec 1885.

⁵ Sir John Jensen, OBE, Chairman Defence Contract Bd 1923-39; Controller of Munitions Supply 1937-39; Asst Sec Depts of Supply and Munitions 1939-41; Sec Dept Munitions 1942-48. B. Bendigo, Vic, 20 Mar 1884.

⁶ *Report upon the Department of Defence from First of July 1914 until the Thirtieth of June 1917* (Government Printer, Melbourne).

tions, the four government munitions factories had represented a capital investment of some £3,800,000.⁷ In the early years the chief emphasis had been on Vickers machine-guns and other small arms at Lithgow, New South Wales; on small arms ammunition (.303) at Footscray, Victoria; on explosives at Maribyrnong, Victoria; and on capacity for the manufacture of a modest number of field guns and for adjustments to and modifications of heavy weapons (manufactured elsewhere) like 18-pounders and 4.5-inch howitzers, at the ordnance factory, Maribyrnong. It was not until 1933-34, however, that the first order for a large weapon (the 3-inch anti-aircraft gun) was received; but it was a welcome beginning and the factory proceeded with it enthusiastically. The first gun was proved in 1937.

As part of the 1937-38 programme of defence expenditure £3,000,000 was allocated to increasing the capacity of munitions factories. Since the programme within the munitions organisation for which this money was sought rounded off the earlier programme and was the basis on which wartime development was built, it warrants some discussion.

Despite the building up which had occurred before the 1937-38 programme it seems clear that those responsible for munitions production welcomed this £3,000,000, announced by the Prime Minister on 27th April 1938, as the beginning of more adequate finance.⁸ They judged available capacity in the light of what they expected the Services to need in war, and firmly believed that it should be increased. Accordingly their 1937-38 programme aimed at increased manufacturing capacity for small arms ammunition, to be provided by a second factory at Gordon Street, Footscray. Capacity for the manufacture of the Bren gun was undertaken at Lithgow, and the production of 3.7-inch anti-aircraft guns was undertaken at Maribyrnong. (The decision to manufacture this gun was announced after the 1937 Imperial Conference.) The policy of armament annexes, which has been described in the pre-war preparations, was adapted to the 1937-38 programme. The original twenty-one annexes were planned to produce the following ammunition stores: 2-pounder for the army and the navy, 18-pounder for the army, 3-inch for the army, 4-inch for the navy, 4.5-inch for the army, 3-inch mortar for the army, grenades for the army, and aircraft bombs for the air force.⁹ By September 1939 annexe contracts had been signed in several cases, buildings had been or were being provided, delivery dates had been received for plant ordered locally and from overseas, and all but four of the annexes (now totalling twenty-three) were due to be completed by the end of the year.¹

⁷ Small arms £858,000, explosives £985,000, ammunition £836,000, ordnance £994,000, clothing £106,000.

⁸ The 1937-38 Budget presented in December 1937 had allocated £11,500,000 for defence; on 27 Apr the Prime Minister announced his £43,000,000 defence programme. The 1937-38 financial year was taken as the first year of the programme.

⁹ But only "unassembled ammunition components" (*Commonwealth Debates*, Vol. 162, p. 117, 16 Nov 1939).

¹ See also P. Hasluck, *The Government and the People, 1939-41* in this series and G. Long, *To Benghazi*, in the army series, for further discussions of defence policy.

THE OUTBREAK OF WAR

The concern of the munitions administration at the lack of suitable capacity has been remarked. It is also desirable to bear in mind the administrative procedure, or rather the sequence of procedure. It was axiomatic that the manufacturing capacity would be governed by the demands of the Services. The procedure established had been that the Services would present their requirements and that these requirements would be passed on to the production department (Supply and Development). But manufacturing capacity would have to be established in many instances before the requirements could be satisfied, and in the first months of war it took all the ingenuity of the manufacturing department to adapt procedure to the stage where "anticipated" demands could be received from the Services and so provide at least a measure of time in which the manufacturing capacity could be organised ahead of likely demands.

There were, of course, other factors which contributed to the difficulty. In the beginning financial considerations were paramount, and the Government, feeling its way cautiously, was not prepared to commit itself immediately to major projects, particularly projects which involved complicated techniques so far outside the experience of Australian manufacturing industry. Influential advisers like the Treasury Finance Committee (especially in the case of increased munitions production) were listened to with respect. The Services, who might have been expected to back wholeheartedly the munitions proposals, hesitated partly because they lacked the government directives without which they were not prepared to proceed, and partly because any enthusiasm might result in the approval of such proposals at the cost of cutting down their own funds. It was possible to criticise munitions projects as extravagant. In consequence of all these factors the more advanced munitions proposals were not endorsed—in the first months of war—without a deal of work and wangling on the part of those officers and industrialists who believed so firmly that the development of further capacity must proceed with urgent haste.

The story of the 25-pounder gun project was an illustration of this difficulty. At the outbreak of war the army requirements were presented to the War Cabinet and at the same time the War Cabinet considered from the Department of Supply and Development a "statement of requirements of capital expenditure to bring munitions production up to a condition whereby the war may be prosecuted effectively". This statement involved £2,755,000 in all, and the chief items were a second explosives filling factory² (£750,000) and the provision of capacity to produce 25-pounder field guns (£855,000). This was a notable advance. So far the items made locally had been ammunition, small arms, including machine-guns, and the 3-inch and 3.7-inch anti-aircraft guns. The War Cabinet was not prepared to endorse the 25-pounder item.

² The original suggestion, Albury, N.S.W., was queried by the Dept of Supply and Development in favour of Bendigo, Vic, because of availability of labour and climate at the latter; the Minister for Supply and Development recommended Bendigo but the War Cabinet on 16 Oct 1939 decided on Albury. The project was deferred on 14 May and ultimately was erected at Salisbury, S.A., about 15 miles from Adelaide.

On 11th September a submission of the Minister for Supply to the full Cabinet reported that the Defence Department had informed his department that "nothing more will be required from the Supply Department after orders already placed have been fulfilled". This meant that the munitions-making potential was considerably beyond "our present apparent requirements". Mentioning the possible discharge of skilled men the submission continued, "I fully realise that the point of view of the Defence Department is conditioned by financial considerations and I realise that even with the existing large financial provision for defence it is only possible to allocate a given amount for munitions," but in stressing the need for further financial provision the minister reminded his colleagues of the time involved in making equipment—for a rifle: six months, for a shell fuse: three months, for an anti-aircraft gun: twelve months. As a way out of the difficulty the Minister for Supply suggested they should discover if munitions could be sold to Britain or to other British countries. The suggestion that at so early a stage production appeared to be ahead of demand possibly affected the Cabinet decision about the 25-pounders, which were not yet fully in production even in England, but within the munitions administration officers were convinced that not only this expansion, but more, would be required to fulfil the ultimate demands of the Services.³ Indeed, as early as May 1939, at the instance of Jensen, the first official proposal for the manufacture of 25-pounders had gone forward.

On 22nd September and 10th October in telegrams to the United Kingdom Government the Australians explored the possibilities of selling munitions overseas. In his reply the High Commissioner said the Home Government was interested "in 18-pounder, 4.5-howitzer, 6-inch howitzer, 25-pounder and 3-inch mortar [ammunition] and also in .303 small arms ammunition", and on 15th November the Acting Minister for Supply and Development⁴ was able to support his submission to the full Cabinet for capital expenditure of £1,025,000 (including £400,000 for gun manufacture and £100,000 for a carbamite factory⁵) with the news that an order from the British Government for £3,000,000 had been received and there were "further orders to come". Advantages to be gained by the expenditure included the "manufacture in Australia of a range of guns and ammunition not hitherto undertaken although likely to be required should the war be prolonged" and the new explosives constituent carbamite.

This proposal was minuted to the Defence Committee (after the United Kingdom order had apparently been approved) and the proposal next appeared in a submission, this time to the War Cabinet, which considered it, along with the persuasions of the Supply Department and the comments

³ On 10 Oct the War Cabinet approved an additional £1,000,000 for Class D items to the army "on the understanding that if there is a shortage of ammunition orders for munitions factories as much of this as possible to be used for this purpose". On 17 Oct after examining proposals from the Military Board for expenditure of the £1,000,000 the War Cabinet directed that "actual amount required to be authorised to be kept to a minimum in commitments for future years".

⁴ Sir Frederick Stewart. (Casey had left for England on 20 Oct 1939.)

⁵ Carbamite is a stabiliser for cordite.

of the Treasury Finance Committee chairman, on 21st December.⁶ Some idea of the conflicting opinions can be gained from a consideration of the Treasury Finance Committee's chairman's comments. In his view:

The Supply Department's proposal must stand or fall according to whether the Government considers

- (a) that Great Britain's need of munitions is such that it becomes imperative to increase our productive capacity and/or
- (b) that the situation generally has changed to justify factories being placed on a footing appropriate to a "medium" rather than a "minor" scale of attack.

Of the United Kingdom orders he remarked, "It is difficult to escape the conclusion that a piece of commendable salesmanship has opened up a market for any potential surplus production, but it does not follow that Cabinet is justified in spending a lot of money in expanding present capacity." The Department of Supply and Development, it seemed clear, was using the English order "to justify the resurrection of certain proposals which I understand were laid before Cabinet at an earlier date, but were deferred". The representative of Supply and Development had, he said, admitted that "the intention of the present proposal was to put the munitions factories in a position to meet defence requirements based on a 'medium scale of attack'".

The observations were accurate enough. The Department of Supply and Development was indeed pushing by every means it knew the proposals for additional manufacturing capacity—chief among them the proposal for 25-pounders—and employed the devices of linking such proposals with English orders, of submission in two Cabinets, even of being unspecific about the weapons involved.⁷ In doing so it had in mind, not the demands of the Forces as then presented, that is minor scale of attack, but the demands of the Forces as the department foresaw them later on. (In the event the capacity they sought was sorely needed.) The Finance Committee chairman, equally correct according to procedure and decisions, saw fit to remind the Supply and Development Department's representative that "Cabinet must have concluded that such a scale of preparation was unnecessary when it deferred the earlier proposals".

The upshot was the further reference of the submission to the Defence Committee with the Controller-General of Munitions Supply, the Chairman of the Board of Business Administration, the Chairman of the Accountancy Advisory Panel and the Chairman of the Treasury Finance Committee co-opted. On 18th January 1940 the War Cabinet considered the matter again. The submission of 15th November had proposed

for various items, £525,000
additional for gun manufacture, £400,000
new carbamite factory, £100,000.

The submission of 17th January now read:

- (a) approval be given to manufacture of the munitions mentioned for United Kingdom;

⁶ It should be remembered that some aspects of this committee's beginnings were firmly opposed in the Defence Department.

⁷ For example see difference in terms of submission and decision which follow.

- (b) approval for erection of factory for carbamite at cost of £100,000;
- (c) further consideration of expenditure of £400,000 for 18-pounders and 4.5 howitzers;⁸
- (d) that before any further expansion of munitions production is undertaken in Australia advice of United Kingdom re types of munitions they urgently need and desire us to produce should be sought.

To this the Cabinet assented, but the decision on the third item read "provide capacity for production of 25-pounder guns and 2-pounder anti-tank guns" (£400,000). The project, first submitted back in September, could at last proceed. In the later stages the view appears to have been, not that there would be objection to the proposal to make guns, but that what guns "is now only a question of Government policy". Essington Lewis himself was known to be "very keen to provide for this manufacture".⁹

MACHINE TOOLS

While these negotiations on a point of particular policy engaged the attention of senior members of the munitions administration, the more general task of nursing along the expansion so far authorised continued. Of necessity this development was steady but unspectacular. The decision to manufacture locally, in addition to such items as Bren guns and the 3.7-inch anti-aircraft gun, increased ammunition of various new types, meant the provision of additional machine tools, and at the same time the buildings to house them. These two needs must be made to coincide as nearly as possible, and where importation of the machine tools from overseas was necessary, this proved progressively more difficult. There was also uncertainty about the jigs and fixtures ordered in England for the Bren guns, and a special allocation was made for local manufacture of these.

The lack of machine tools could be overcome from two sources: importation and local manufacture. The first was immediately exploited, but conditions were no longer normal; it did not follow that, once the order was placed, delivery would be made within a reasonably short period. The second, local manufacture, was tied up with the insufficiency of suitably trained skilled manpower, so that there were two problems to be overcome: the techniques of manufacture, and the labour to apply them.¹

The Defence Supply Planning Committee had instituted some form of supervision of machine tools by making a supply certificate necessary for import or export. After the outbreak of war a representative in America was given the job of supervising Australian aircraft orders and arranging their acceptance. Faced with the competition of the United States Service departments, and of Allied purchasing commissions, he emphasised the

⁸ The submission considered by the War Cabinet on 29 Sep 1939 said the "18-pounder and 4.5 are obsolete although quite effective for local defence". Nevertheless they were then the standard equipment of the army, in the sense that they were all the army had, and it was the introduction of new types which bothered the Treasury. They foresaw that the adoption of 25-pounders would mean, not continued use of old guns, but the complete discard of them in favour of the new.

⁹ Assist Secty Dept of Def Coordn to Secty 17 Jan 1940.

¹ In the view of a writer in the Directorate of Machine Tools and Gauges of the Department of Munitions, "right through the machine tools programme labour shortage was never alleviated in any degree".

need to give the procurement of machine tools the highest priority, and deplored the "free lance" purchasing of other Australian authorities, believing, with justification, that Australian demands would be better served if one voice and one purchasing authority were responsible for total demands. His recommendations, endorsed by the Australian Trade Commissioner in New York, that all orders should go through the Central Control Board of the British Purchasing Commission, and that there should be one liaison officer to each of the New York and Ottawa missions, were adopted by the War Cabinet.²

At home the purchases by various authorities (the service departments, aircraft construction, various factories, the Postmaster-General's Department and the railways) made it clear that there was a need to coordinate requirements since numerous small demands meant uneconomical buying and lack of force behind demands.

At the end of December the Department of Supply and Development set about establishing a committee to control the supply of machine tools in view of the acute shortage from the United Kingdom and the United States, and the Seaborne Trade Committee decided to ask the Department of Trade and Customs to accept the recommendations of this committee on import requirements of machine tools. The Minister for Supply took the problem to the Economic Cabinet at the end of February, following a conference, and while the establishment of a committee and its suggested powers were approved, the intention to create a trust fund of £500,000 "to purchase general purpose machine tools in Australia or overseas with a view to establishing a pool" was referred to the Treasury Finance Committee before any action was decided.³

Local production had been assessed in the "secondary industry census" conducted by the Industrial Survey Section of the Defence Supply Planning Committee, and this revealed that at the outbreak of war there was one manufacturer of lathes and two of power presses; the government small arms factory had manufactured a number of machines other than lathes. Apart from this capacity—all of good quality—there were but few manufacturers, and their output was not only extremely small but of indifferent quality. Similarly in relation to the manufacture of tools, gauges,

² The War Cabinet on 6 Oct 1939 recorded the choice of F. B. Clapp to "go to U.S.A. by the next ship to investigate the prospects of purchases of training aircraft in the United States if and when the Neutrality Act is amended" and also to see to the delivery and shipment of Lockheed aircraft. This concern about aircraft was part of the Cabinet's consideration of Australia's contribution to Empire air defence.

Orders for machine tools for munitions were sent to the Australian Trade Commissioner in New York which meant that government demands were through a common agency.

³ The Advisory Panel on Industrial Organisation had recommended control through the Department of Supply but "without representation of private interests".

The committee was empowered to

- (a) proclaim classes of machine tools as subject of control;
- (b) ascertain probable needs of government departments and private industry for such tools;
- (c) classify such requirements in order of priority, having regard to uses of tools, alternatives, and relative scarcity of particular tools;
- (d) promote Australian manufacture of machine tools;
- (e) approve of all overseas orders and certify to Department of Trade and Customs all import and export licences for tools specified before any such licence issued;
- (f) certify purchase of machine tools to proper authority in the United Kingdom and U.S.A. which in the latter case would be the Allied Purchasing Mission through our Trade Commissioner and other representatives;
- (g) require as far as may be necessary all sales or uses of specified tools in Australia to be licensed and to control such licences.

jigs and fixtures, at the outbreak of war only five firms were known to be producing. The problem for local production of machine tools was chiefly the shortage of skilled men, but as well there was the problem of providing the machines on which the young men enlisting in the technical training scheme (aimed at overcoming the manpower problem) might be trained. Elsewhere the general competition for such supplies of skilled men as were available has been described.

To begin, therefore, the greatest reliance was on import from overseas and to this end the newly established Machine Tools Committee bent its efforts, for although supplies from overseas were difficult they were not yet cut off to the extent they were after the fall of France; and local production was developed in the meantime.⁴ In prompting the establishment of the Machine Tools Committee the Advisory Panel on Industrial Organisation had pointed out that it would be unsuitable to have other than government members on the committee, since in the industrial questionnaire or census the trade had given confidential information and this should not be available to "persons who might be interested in competitive industrial business".⁵ Accordingly the Departments of Munitions, Supply, Aircraft Production, and Trade and Customs and the Premiers of New South Wales and South Australia formed the committee, although importers attended the first meetings to press for longer extensions of import licences to overcome delays in delivery.⁶

SMALL ARMS AMMUNITION

Meantime a situation was developing which, because it coincided with increased political alarm about events overseas, provided the occasion for far-reaching changes within the munitions organisation.

The lack of small arms ammunition for England, though not the only reason for criticism of the speed of munitions development, when coupled with the political urgency to make Australia more self sufficient and to aid the United Kingdom in the face of Germany's successes, provided a spur to political action.

In the decision of 18th January 1940 the War Cabinet had approved a draft cablegram to the United Kingdom on munitions supply, but had deleted a reference to the supply of .303 ammunition; after consultation between the Chief of the General Staff, the Ministers for Defence Coordination, Army and Supply, a decision was to be made about the immediate delivery to the United Kingdom from stocks, followed by regular monthly

⁴ For further discussion of machine tools and gauges see D. P. Mellor, *The Role of Science and Industry*, in this series.

⁵ A problem which confronted any department or authority which sought collaboration between various members of a trade or industry. Later when the business community was resigned to the introduction of control they adopted the procedure of themselves suggesting trade organisations or consultative committees as the means of surveying or controlling the particular industry. Inasmuch as every industry or trade had its own complex technicalities of which the government administrative officers knew but little, the procedure was satisfactory to both sides.

Machine tools were peculiarly vulnerable; they were unquestionably the most vital part of production, and the temptation to secure, and hold, vital equipment of this type was as natural to industry as it was vexing to those who sought to control these precious goods.

⁶ In the reorganisation of munitions production after the fall of France the Machine Tools Committee was dropped. The Machine Tools Directorate within the new Department of Munitions assumed all responsibility for machine tools, gauges, jigs and fixtures.

deliveries, the decision in both cases being dependent on the prospective consumption and on deliveries by factories. The weekly progress report of the Chief of the General Staff—before the War Cabinet on 25th January—revealed:

Present stock	115,000,000 rounds
Estimated use this year on training	50,000,000 rounds
Present annual rate of production	100,000,000 rounds
Rate expected at the end of the year	220,000,000 rounds

and Cabinet decided to send 10,000,000 rounds at once and thereafter 5,000,000 a month.

The expansion of production of small arms ammunition was considered again by the War Cabinet on 6th February, this time in connection with proposals from the Minister for Supply and Development. Having been asked "to do everything possible to supply the United Kingdom with increased quantities of this ammunition", he reported that Australia must either expand production or reduce reserves for her own army and air force. By the end of 1940 output from the two Footscray small arms ammunition factories should be 200,000,000 rounds per year. The Adelaide factory should be completed by July 1940. (It had been proposed early in 1939, and the site was approved on 1st August.) If £110,000 was allotted to new plant for this factory—instead of, as suggested, transfer of the old plant from Footscray—a "total output of 250,000,000 rounds per annum might be expected" with the three plants in operation. The Cabinet approved the extra sum, and asked that the Defence Committee and the Controller General of Munitions Supply examine the output of "Red Label" ammunition.⁷ (It transpired that the 10,000,000 rounds of this type offered to the United Kingdom were not, in fact, available.)

On 27th February criticism from the Chief of the General Staff suggested that "if Supply and Development's forecast of completion of Australian orders by 30th June 1940 was to be realised, rapid progress would be necessary on certain items which appeared to be somewhat in arrears".⁸

It was becoming clear that while the Government might and did agree to provision for increased capacity, the factor to be reckoned with was the time that must elapse before that capacity delivered the goods; and each week time was running alarmingly short. On 5th April a further table of small arms ammunition "productive capacity" came before the War Cabinet.

No. 1 Factory (Footscray)—production for March 10,000,000 rounds then 8,000,000 per month.

⁷ Reasons for the query involved not only production, but the requirements of the air force. In general, .303 ammunition was made for the army to be fired at a maximum rate of 600 rounds a minute. But the rapid expansion of the air force, and its training programme, demanded considerable quantities of the .303 ammunition to be fired at a rate of 1,000 rounds a minute. They could not risk imperfect cartridges (firing occurred, for example, through the revolutions of the propellor), and gauging etc. in manufacture had therefore to be more strict, and cost of such ammunition was, of course, much greater. This special .303 ammunition was labelled in red, and to fulfil the demands the factories had been concentrating on it; the army had fair supplies of ordinary .303.

⁸ War Cabinet Minute 174.

No. 2 Factory (Footscray)—production nil until July when 1,000,000 per month becoming 2,000,000 in September and increasing 1,000,000 each month to following March when 8,000,000 per month.

No. 3 Factory (Adelaide)—production nil until October when 1,000,000 per month then 2,000,000 in December, 3,000,000 per month from February and 4,000,000 per month from the following March.

In effect, not until March 1941 was total capacity expected to be 20,000,000 rounds a month.

The usual weekly review of Chiefs of Staff reports on 3rd April had included a request from the army "for a special effort to expedite deliveries" of munitions and when two days later the programme of small arms ammunition was considered the Cabinet decided that

In view of low state of army reserves and increased demands of R.A.A.F. under Empire Air Scheme . . . no further orders to be taken from the United Kingdom; the position to be reviewed in November 1940 when present order will be complete and productive capacity will be substantially increased.

Beginning as a calculated incentive to provide manufacturing capacity, the oversea orders were now an embarrassment; all available capacity for making small arms ammunition was needed to satisfy the increasing local demands. Men in the munitions organisation who had predicted that greater capacity must be provided, and to whose efforts was due such expanded capacity as was, and would become, available, thus saw their predictions coming true.

The munitions people had continued to press for allocations towards additional capacity, and in February 1940, when the "Review of the Australian War Effort" was before the War Cabinet, the stated "objective of the munitions development programme" was to provide facilities to manufacture annually in Australia broadly—

- 100 anti-aircraft or field guns 3-inch to 4.5-inch calibre
- 40 2-pounder anti-tank guns or 3-inch mortars⁹
- 1,250 Vickers machine-guns
- 1,800 Bren machine-guns
- 1,500,000 rounds gun ammunition 2-pounder to 8-inch practice
- 270,000,000 rounds small arms ammunition
- 220,000 respirators

This was to be achieved in the six government-owned munitions factories and establishments and some twenty-five armament annexes attached to commercial industrial establishments. In addition to the third small arms ammunition factory being erected at Adelaide a second explosives filling factory was still under consideration. At the same time proposals for £425,000 additional accompanied this statement, but because these had been based on a "medium" scale of attack they were referred back to the Defence Committee (which incidentally pointed out that proposals should come to it before going to War Cabinet "in accordance with the Committee's regulations"). This reference to service authority and the

⁹ The ordnance factory at Maribyrnong had received an order for 3-inch mortars in October, and for 2-pounder anti-tank guns in December 1939.

general confusion which occurred while the urgency of some sections of the administration warred with the caution in others, should be viewed against the uncertainty of general policy during the early months. In February when the army's criticism of munition deliveries had begun, the army had furnished a report on the orders placed with the Department of Supply and Development. The department in turn made its report which went to the army for comment. The procedure was a tedious one, and it is not surprising that the final discussion took place four months later, by which time other events had occasioned changes in administrative organisation.

Nevertheless it is of interest to consider the viewpoints of the two sections of the administration as revealed at the time. The Supply Department took the view that "forecast of completion" of orders by 30th June was not an undertaking to supply on that date but a statement of what they would endeavour to achieve; moreover it related only to orders then received, that is about 25th October 1939. Increased demands on the department in other directions had prevented "concentration on the above orders and programme adjustments made with the approval of the army" had altered conditions. Delays in the arrival of equipment from overseas were quoted. The Department of the Army (writing, however, on 31st May by which time Dunkirk was being evacuated) said "the all important point at the moment is to plan for the maintenance of a sustained effort designed to produce ammunition at a maximum rate, regulated as far as practicable according to a predetermined order of priority for the various items on order". They accepted the fact that certain causes were beyond the control of the Department of Supply, in particular the provision of machine tools and gauges, but "balanced production is the keynote of efficiency of stocks of ammunition" and instanced two notable cases of the failure to secure this—

3-inch h.e. shell: cartridges delivered	41,336
fuses (without which the shell was useless)	10,500
deficiency	30,836
18 pdr h.e. shell: cartridges delivered	36,310
fuses	73,310
deficiency	37,000

The munitions organisation was, apparently, struggling; its production of small arms ammunition had been inadequate to provide supplies for the United Kingdom and at the same time maintain local stocks at required levels; and the army was critical of the speed with which it was delivering other types of ammunition as well as of the efficiency in its programming.

But during these early months of 1940, until the European war took so serious a turn, the Department of Supply had to continue its fight for allocations. The later munitions administration had at its command financial resources which had been accorded only grudgingly to its pre-

decessor in the early months. With its limited facilities—sometimes, as in the Adelaide small arms ammunition factory, acquired deviously—the munitions organisation in the Department of Supply was able to report in May 1940 the following monthly production figures, which could not have been influenced by the very recent administrative changes:

Shell 2-pounder	20,000
Shell 4.5-inch howitzer	2,500
Shell 18-pounder	20,000
Bombs 3-inch mortar	6,000
Bombs aircraft	6,000
Cartridge cases 2-pounder	10,000
Cartridge cases 18-pounder	20,000
Cartridge cases 4.5-inch	10,000
Various fuses	20,000
Various primers	60,000
Machine-guns	80
Anti-aircraft guns	4
Small arms ammunition	8,000,000

Moreover it could fairly retort that some of the army criticisms were unfair.¹

The Supply Department's programme in February, after consideration by the Defence Committee on 28th March, had been considered by the Business Board and the Treasury Finance Committee and was finally approved at the reduced figure of £322,000 on 29th April—two months later. (In point of fact, since some of the proposals for expansion considered necessary by the department had first been put forward in May 1939, eleven months had elapsed before approval was achieved.)

Two weeks later the War Cabinet was considering the agendum, hastily demanded, on "Munitions Supply—acceleration of approved programme in the light of European situation", and henceforward major decisions affecting munitions organisation were to come thick and fast. After considering this particular agendum the War Cabinet approved despatching 35,000,000 rounds of small arms ammunition to the United Kingdom out of existing army reserves; at the same time, however, a further £155,000 was approved to increase production of small arms ammunition by concentrating more machines in the existing factory buildings. For the time being erection of the proposed filling factory, mentioned earlier, was deferred because it would take three years, and instead the factories at Maribyrnong were to be extended at a cost of £270,000 to further increase filling capacity for all types of heavy shell, bombs, depth charges, etc. The Cabinet, however, still wanted a site away from Maribyrnong to be investigated, which, in fact, coincided with the department's desires also. Eight days later £425,000 capital expenditure, which had earlier been

¹ For example, the fuses about which the army complained, were the responsibility of the army. They had ordered them in England because the munitions organisation was unwilling to accept the order; the fuse bodies were made in aluminium and there were no facilities in Australia at that time for die-casting large pieces of aluminium.

The cartridges could be, and were, used again, being returned for re-forming, so that the need for new cartridges was not the entire story. In any case the munitions organisation, in February, was struggling to secure money for more plant. By May production had reached 20,000 a month.

deferred, was approved for plant and buildings for all types of ammunition. The United Kingdom was helped at the expense of local stocks by diverting output of the following items: 3-inch mortar bombs (50,000 rounds), 18-pounder cartridges (100,000 rounds), 6-inch howitzer 100 lbs (30,000 rounds), and 4.5-inch howitzer (100,000 rounds). A week later when the Supply Department reported its steps to achieve 8,000,000 rounds at the new No. 3 factory by June 1941 (or double the earlier programme) the Cabinet decided that "issues of small arms ammunition to rifle clubs should be suspended for a period of twelve months". The department had also suggested that the Services should review orders for all small arms ammunition other than ball type (for example that they should cancel orders for blank ammunition) so that the production capacity could be concentrated on Mark VII ball; but on this no decision was made.

By this time decisions had been taken at the highest executive level concerning the reorganisation of munitions. The statement that the newly appointed Director-General of Munitions

will be freed from all hampering regulations and given the utmost authority not only to get things done with the existing governmental machinery but also to press into service civil factories or all or any of the mechanical resources of those factories,

while it indicated quite clearly the confidence which the Executive, with good reasons, placed in him, also indicated the notable advantages he was to be given over the munitions organisers who had so far been labouring to provide warlike equipment. Their difficulties can be seen in the following list of authorisations for capital expenditure (the most important since it represented *capacity* to produce):

September 1939 to January 1940		£2,900,000
29 September	1,900,000	
16 November	500,000	
18 January	500,000	
February to April		505,000
6 February	110,000	
27 February	73,000	
29 April	322,000	
May		1,070,000
14 May	155,000	
	270,000	
22 May	220,000	
	425,000	

After the first major allocation in September the next four months produced only £1,000,000 and the next three just half that amount. But in May 1940, dismayed at the turn of events in Europe, determined that the United Kingdom needs should be fulfilled, as well as Australian defences strengthened, and emphatic in a desire to gear Australian production to these demands, the Government confirmed a stream of approvals by Essington Lewis which by the end of December 1940 raised "authorisa-

tions of capital expenditure" from a total of £8,000,000 in May 1940 to £30,000,000.²

The decisions of May—among the most momentous taken during the war—involved administrative reorganisation of the Supply Department, but before considering them it is necessary to review the developments in other sections of supply: aircraft production and the provision of "other than munitions".

AIRCRAFT PRODUCTION

The pre-war plans which had produced the new Commonwealth Aircraft Corporation with a nominal capital of £1,000,000, presupposed government support in the form of orders for the Wirraway, the aircraft the corporation was going to build. Such orders were given—the first for 40 (in January 1937), followed by one for 60 (29th September 1938) and 32 (8th June 1939). The first two aircraft were delivered in July 1939 and thereafter 4 in August, 6 in September, making a total of 12 locally-made machines, powered by single-row Wasp engines, made under licence from Pratt & Whitney of the United States of America. In the first fortnight of war the full Cabinet had approved a total of £125,000 for the purpose of increasing production of these machines. By December the total produced had reached 33.

The enquiries which had preceded the beginnings of the Wirraway had been confined to simple types of aircraft; the Wirraway was itself an advanced trainer only. In March 1939 the report of a United Kingdom Air Mission³ recommended the production in Australia of an operational aircraft—the Bristol Beaufort bomber. The full Cabinet approved manufacture of 180 (fitted with Taurus engines), 90 for the United Kingdom Government, 90 for Australia, the cost of manufacture of the airframes to be divided equally between the two governments. 250 engines were ordered from England and raw materials, drawings, jigs and tools were to come from there also. The project became the responsibility of the Aircraft Construction Branch of the Department of Supply and Development, and a general manager, Mr Clapp,⁴ was appointed in July 1939.

The mission had recommended the use of sub-contractors to the maximum extent and the coordination of their activities by the establishment of central assembly plants. This plan was followed, the railway organisations in New South Wales, Victoria, Queensland and South Australia

² Munitions Digest of December 1940, "a complete revision as at 31 Dec 1940 of Munitions section of the dossier dealing with the Munitions and Supply departments, and matters relating to munitions, contained in the Australian brief prepared for the Eastern Group Conference" (p. 20): The Capital Expenditure authorised by Government for Development of Munitions Production in Australia may be set out in grants approximately as follows:—

	£
Pre-war period (complementary with Imperial Conference 1937)—	
1937-41 Programme	3,000,000
First nine months of war—September 1939 to May 1940	5,393,377
Grants to Department of Munitions, June to December 1940	22,291,000
Total Capital Expenditure approved by Government	30,684,377

³ Under Sir Samuel Hardman Lever.

⁴ Sir Harold Clapp, KBE. Chmn Vic Railway Comms 1920-39; Chmn Aircraft Prodn Commn 1940-42; Dir-Gen Land Transport 1942-44. B. Melbourne, 7 May 1875. Died 21 Oct 1952.

being enlisted for main assembly work. On the basis of the mission's enquiries, and of United Kingdom participation in the scheme, an English expert prepared a production schedule. This predicted the arrival of raw material in Australia in January 1940, details completed in April 1940, components in July and the first delivery of aircraft in October 1940, rising to 20 a month and completion of the 180 in January 1942.

Slow progress only was made with the scheme, however, and in March 1940 it became apparent that, of the 33,000 jigs, tools and fixtures, at least 26,000, instead of coming from England (that is the Bristol Company), must be manufactured in Australia. It was alleged, too, that data, when received, were incorrect, and by the end of April it was necessary to revise the production programme to: details completed August 1940, components November 1940, first aircraft February 1941, rising to 24 a month to complete the 180 in January 1942. Unfortunately the materials which did arrive on schedule represented only part of the requirements for complete aircraft.⁵ The embargo on export of raw materials from Britain in June 1940 ruled out this source of supply⁶ and the Australians endeavoured to obtain the necessary raw materials from the United States.

Uncertainties also confused the provision of engines for the Beaufort. There were rumours, which reached the full Cabinet via the Air Board, that the Taurus was unsatisfactory, and the possibilities of delay in delivery prompted the Australian Defence Department to ask whether or not twin-row Wasp engines might be used. At the time the British Air Ministry thought the use of a new type of engine uneconomical, but on 30th September they cabled that, although one hundred Taurus would be available for the first fifty aircraft, the remainder could not be supplied. By the end of October they were describing the possible manufacture of twin-row Wasp engines in Australia as "an invaluable contribution". On this important development the full Cabinet gave a decision a week later. Manufacture of the twin-row Wasp was to be authorised "forthwith"; it was to be done by the Commonwealth Aircraft Corporation, and the Corporation was to send men to the United States to study processes, obtain tools etc. The discussion in the Cabinet had revealed the blunt admission that the Corporation was unable to finance the new development (although as the present manufacturers of single-row Wasp engines for Wirraways they were "the only concern in Australia at present manufacturing high power aero engines" and the Cabinet considered that the manufacture should be entrusted to them). Accordingly the new engine factory became a government project to be located at Lidcombe, near Sydney. The capital involved in it was "impossible to indicate even approximately", but the Minister for Supply and Development, hazarding a guess, named £750,000 to £1,000,000.

⁵ A reason advanced was "probably owing to the fact that it has come from the workshops of many sub-contractors scattered throughout England". (Munitions Digest, August 1940, p. 63.)

⁶ When this was advanced as a cause of delay, however, the Cabinet commented that the "date of embargo was approximately twelve months after the appointment of a general manager". (War Cabinet Minute 533, 9 Sep 1940.)

The change involved adjustment to the air frames; and when the United Kingdom announced that not even the promised one hundred engines for the first fifty aircraft would be forthcoming, it was clear that for all Australian Beauforts the design would have to be adjusted to take the twin-row Wasp.

In December 1939 the Economic Cabinet had decided that, whatever the then administrative arrangements, an "Air Commission should be set up" which would "have the joint function of Commonwealth manufacturer of aircraft, and supervision of contracts and arrangements for outside manufacture and supply of aircraft".⁷ The proposal was before the full Cabinet four days later and was approved in principle; in addition the suggestion that there should be four members was confirmed.⁸ Essington Lewis, commenting on the scheme in the War Cabinet on 22nd December "would agree to anything that would expedite and consolidate control", but when the Prime Minister conferred with the Board of Business Administration on 15th January conflicting ideas about the Committee appeared—one that the British Air Mission's scheme, for a small committee for general supervision and under it an executive to control the working of the organisation, should be enlarged (the committee being under the Department of Defence Coordination and the executive with Supply); the other that the Commission itself should be the executive body and that its place lay with the Department of Supply.

A committee⁹ set to work to report on the status, powers and functions of the proposed commission. Since, said the committee, it was estimated that expenditure on aircraft construction and repair in Australia under present proposals would be not less than £25,000,000 during the next three years, there was need of effective coordination between the Departments of Air and Supply and Development, and the aircraft industry. An executive commission was needed, and the War Cabinet on 6th February adopted their recommendation, with certain modifications.

Within the aircraft production organisation affairs were not in a happy state. In the middle of December 1939 the War Cabinet was assailed by somewhat alarming assertions on the part of the Aircraft Corporation's manager that in view of the shortage of raw material "unless something unusual happens, or unless we reduce our production rate, we will have to close down the factory for a period as from 1st June next".¹ There was a stated need for the Wirraway (the Empire Air Training Scheme's requirements had been set at 436—additional to the 132 on order), but the corporation stressed that delivery of raw materials could not be expected in less than six months after placing orders, and that to ensure continued production it would be necessary to lodge immediate orders for materials for further aircraft that might be required; £200,000 for reserves of materials etc. had already been made available. The War

⁷ Economic Cabinet decision, 14 Dec 1939.

⁸ A chairman, production manager, aircraft expert, and finance member.

⁹ Of Defence Coordination, Supply and Development, Air and Treasury (War Cabinet Minute 122, 18 Jan 1940).

¹ War Cabinet Agendum 53/1939, 22 Dec 1939.

Cabinet approved the order, "subject to satisfactory contract arrangements as to price and deliveries", of 100 Wirraways and engines "from material at present on hand", at an estimated cost of £1,000,000. In addition a further £200,000 was approved to cover orders with the corporation for further raw material sufficient to build an additional 100 aircraft; but a month later the corporation was still complaining that no orders had been placed for production "after June next", that "the holdup of the establishment of our local rolling mill due to the commandeering of this plant by the British Air Ministry has ruined what hope we had of developing this vital local supply", and that "those who have failed to approve the order of raw material must accept the responsibility for rendering the industry paralysed for raw material in the latter half of this year and any consequent delay or disappointment in air force plans".²

Deliveries were certainly not those predicted. By March 1940 the total was 51, by June 75, an average of 6 a month, although in December 1939 the corporation had expected to "build up by Easter output to 6 Wirraways a week or approximately 300 a year".³ Nor were contract arrangements satisfactory; the approval of further orders had been, in December, "subject to satisfactory contract arrangements". To this end a report to the Board of Business Administration was made from which it appeared that no contract had yet been made for the first order for 40 (in January 1937); and that the further orders (for 60 in September 1938 and 32 in June 1939) still required firm contracts. The Minister for Defence Coordination had already approved, and the War Cabinet had confirmed, that no further advance was to be made to the corporation until a contract for the first 40 aircraft and 10 spare engines was signed; that the first order should be settled independently of subsequent orders; and that a new form of contract should apply to these subsequent orders. The form of contract was that recommended by the chairman of the Accountancy Advisory Panel, and was on the basis not of a firm price but a "target" price; methods of determining costs were also to be referred to the panel.

At the time the Economic Cabinet had discussed the air commission they had discussed also the Government's relation to Commonwealth Aircraft Corporation, and the full Cabinet did the same, agreeing that "the question of purchase should be discussed by the Prime Minister and Acting Minister for Supply and referred back to the Cabinet for final decision".⁴ But no more was recorded for the time being on this possible development.

The Aircraft Production Commission, getting under way in March 1940,⁵ was charged with bringing accord into its section of war production. Not the least of the problems which the Government hoped it would solve was that of coordinating orders overseas. Here the commission had to guard against the infringements not only of production departments but

² War Cabinet Agendum 53/1939; and Minute 109, 22 Dec 1939.

³ War Cabinet Agendum 53/1939.

⁴ Full Cabinet Minute 267, 18 Dec 1939.

⁵ Statutory Rules 1940, No. 55, 21 Mar 1940.



IT'S THE LIMIT

Maloney in Daily Telegraph (Sydney), 9 Jan 1941.

HANDING OVER



"HERE, YOU TAKE MINE, SON!"

Lahn in Sun (Sydney), 22 Jun 1941.

of the Services. Negotiations to order thirty-one Lockheed Hudsons and spare engines in April evoked the "grave disapproval" of the War Cabinet because "negotiations for the purchase of the aircraft had taken place through the Australian agents of the Lockheed Aircraft Corporation", whereas the Commonwealth "had a representative in the United States who is supposed to attend to all its purchases in that country". Instructions were given that all future purchases within or without Australia were to be made through the Aircraft Production Commission.

In June 1940, as part of the general urgency following Dunkirk, a conference examined "the whole question of the supply of our requirements of aircraft". The United Kingdom was now unable to supply the aircraft necessary for the Empire Air Training Scheme and replacement types from local production were investigated. The result was an order for 200 Wackett trainers, a type designed and developed by Commonwealth Aircraft Corporation, and powered by Scarab engines to be obtained from the United States. The amount involved was set at £815,000. At the same time £50,000 was voted towards constructing a prototype bomber by the corporation.⁶ In June also, requirements to 1943 for home defence and the Empire Air Training Scheme were set at 954 Wirraways, and the War Cabinet approved an order to bring the total to 811. The remainder (143) were deferred until a proposal to replace the Wirraway by an aircraft of higher performance could be considered.

SUPPLIES OTHER THAN MUNITIONS

The Contract Board, functioning at the outbreak of war with a staff of some ten or twelve people, was the administrative section of the Department of Supply upon which fell the task of providing service requirements other than warlike equipment. Chief among these demands at the outbreak of war were clothing and footwear; in the first six months orders covered some 200,000 uniforms. The government clothing factories (there were two of them)⁷ had been the source of uniforms for the Services but also for any other Commonwealth department, including, for example, the Postmaster-General's; in addition textile bags and containers for gun ammunition, flags, tents and canvas ware, including mail bags, were made at Carlton. These factories could not cope with wartime demands for uniforms, and the greater proportion of the wartime requirements of uniform clothing for the Services were therefore obtained from the clothing trade in all States.⁸

⁶ Note should be taken of the reasons given for the expenditure of money and effort on this project. The plane would "keep the design staff together", provide valuable experience for the Aeronautical Research Division of C.S.I.R., would be designed to use materials procurable locally, and would be fitted with the locally made twin-row Wasp engine. The reasons were accepted, although in the light of difficulties then and later to be experienced in production generally, it is difficult to understand why no protest at this somewhat luxurious diversion of money and effort was made. The exigencies of manpower shortages were to produce protests in plenty later in the war.

⁷ The clothing factories were part of the original munitions organisation and that at Miles Street, South Melbourne, was augmented by a second factory at Leicester Street, Carlton, from early 1940.

⁸ The services of E. V. Nixon as business adviser, and Norman Myer as consultant on textiles and clothing, were specially valuable. (*Commonwealth Debates*, Vol 162, p. 1178, 16 Nov 1939.)

THE KNIT-ONE-AND-DROP-TWO BOYS



Armstrong in Argus (Melbourne), 29 Nov 1939.

This involved something more than "procurement by open tender", the established procedure of the Contract Board. The urgency of service orders precluded the delay this entailed, just as fulfilment of the orders meant that the board had to undertake the mobilisation of all available capacity. A discussion of ordering and financial procedures occurs elsewhere; in order to mobilise capacity the board continued and developed the technique of enlisting representatives of private industry—sometimes as committees, sometimes as individuals.⁹ In the case of footwear, for instance, as far back as 1938 a manufacturers' committee, established under the aegis of the Principal Supply Officers' Committee, had reported on the ability of the trade to satisfy the estimated requirements of the Services. This group drew attention to potential shortages in imported screw wire and wood lasts for military boots, and the necessity, in the event of war, of controlling hide supplies and tanning materials. A survey in June 1939 revealed some 311 footwear factories employing 17,000 people.

By the middle of November 1939 orders for woollen goods had involved 1,000,000 yards of material and 240,000 blankets. Such quantities, wanted speedily, were beyond the scope of mills handling the existing contracts, and a conference of mills throughout the Commonwealth was therefore held. Where there were existing orders at mills, output was to be increased; and new firms were included in the production, being assisted by previous contractors in mastering any unfamiliar features of manufacture. Similarly a conference of clothing manufacturers was necessary to cope with needs—4,500 greatcoats and 11,000 uniforms weekly—and about fifty firms were involved.

Early criticism was aimed at the department because of delays in delivery of supplies to the forces; many such delays were due to the inability of manufacturers to adhere to the too-optimistic delivery dates they had given when accepting the contracts. Much of the delay was in fact due to defects in the machinery for formulating and placing orders. Thus on 29th February the Minister for Supply wrote:

While it is agreed that we should take longer views on clothing and other personal supplies for the troops and improve our arrangements to avoid the recurring shortages in the camps, we are no further forward in finding ways and means of doing so. At the moment there is comparative quiet, despite the details disclosed in my report on New South Wales camps last week. We have materials in hand and on order for immediate army requirements, but the situation likely to arise in two or three months is very different. I may summarise the prospects as follows

1. Clothing mills and manufacturers are running out of orders and we cannot give any intimation as to future needs. Cotton mills have already reverted to civil production.
2. On present orders the air force trainees will be without clothing or other personal supplies as from about May next.

⁹ The method which had been used effectively in the war of 1914-18 was developed in the inter-war years (for example by the Advisory Panel on Industrial Organisation) and was used by the later Munitions Directorates also (for example the Automotive Industries Panel and Optical Munitions Panel).

3. There is no provision for equipping a second division to be sent overseas if such a policy is decided upon, and no reserves of any kind for any expansion.
4. Unless immediate action is taken we shall soon be scrambling again for clothing, requisitioning and commandeering and seriously disturbing civil industry and consumers.¹

Then, in March, the decision to form a second division having now been made, the Board of Business Administration could quote instances of the Master-General of the Ordnance signing demands for large quantities of service clothing with a request that delivery commence in ten days. The fact that, under the army's own procedure, these demands reached the Department of Supply and Development, for contracts to be arranged, eight days after the proposed first delivery, added a Gilbertian touch which obscured the essential point. Manufacturers could not be expected, especially at this early stage, to make for stock in expectation of contracts. The Services, on the other hand, at this stage were unable to foresee demands well in advance, and the Supply Department had no financial authority to accumulate stocks. The minister's proposal was that his department should have authority to build up stocks in anticipation of service requirements, but nothing came of this and more attention was concentrated on eliminating defects and delays in procedure. In general the mobilisation of manufacturing capacity for clothing proceeded, within these limits, satisfactorily.

A less favourable beginning was made with boots, where the early contracts were the subject of disquieting disclosures in Parliament concerning prices to be charged.² Hides and leather, the raw materials required, were immediately affected by steep rises in price in anticipation of wartime demands, but unlike wool for the clothing manufacturers, were not the subject of bulk purchase in Australia or overseas, and were subject to the vagaries and manipulations of the open market. The Prices Commissioner countered by declaring the goods, and within the Supply Department the position "Directing Authority (Leather)" was created.³ In addition a Footwear Advisory Committee, representing various sections of the industry, assisted the department on matters relating to plant, availability of supplies etc. This type of committee was constituted for the other industries involved in equipment for the forces: woollen and cotton knitted goods, woollen and cotton fabrics.

Such equipment affected the manufacturing section of the economy; and in the beginning, at least, expansion was possible without immediately producing shortages in the needs of the rest of the population. Such was not the case, however, when service needs for camps, buildings for stores, and the like were fulfilled. It was in expenditure of this nature that a lag had been apparent before the war; and, as service needs mounted, the lag,

¹ Board of Business Administration, Meeting of 6 Mar 1940 records this letter from Minister to Prime Minister.

² *Commonwealth Debates*, Vol 162, p. 1584, 28 Nov 1939. In May 1940 there were further doubts about the quality following disclosures (Vol 163, p. 302, 22 Apr, and p. 919, 16 May).

³ W. E. Hooper, Managing Director, Wm Braithwaite Pty. Ltd was appointed in an honorary capacity.

disregarded at first, grew to the point in the third quarter of 1940 when the Treasury itself was drawing attention to unused balances. Works of this type required materials, labour and skills similar to those for works carried out by the States and by the munitions section of the Supply Department to house new manufacturing capacity. Moreover major projects such as the naval graving dock at Sydney were an extension of the same sort of capital work.

Timber was among the most necessary construction materials for camps—for works programmes anywhere, in fact—and munitions also involved very large demands for timber for ammunition boxes. Here again pre-war planning had considered the importance of the product, and a conference on 18th September 1939 had resulted in a survey being made and some approach to the States drafted. At the beginning of the war consumption had been little less than the 1938 peak of 1,000 million super feet.⁴ In 1939 supplies were 324,000,000 super feet of imported (mainly softwoods) and 711,000,000 super feet of native timbers. To begin with heavy demands were placed on civilian industry, but not insuperable demands, and it was not until May of 1940 that the Inspector-General of Forests and the Chief of the Division of Forest Products of the Council for Scientific and Industrial Research put the problems bluntly to the Cabinet. So far the arrangements of September 1939 had been continued: a central panel or committee which consulted with various representative State committees. None, however, had executive authority.

In their memorandum the Inspector-General and the C.S.I.R. Division's chief stressed the "false sense of security because the timber position in Australia was not yet acute", but suggested that the "State Committees set up at the request of the Minister for Supply and Development be given recognition by the Federal Government and asked to transmit to a Commonwealth Timber Committee all problems of supply". They wanted to advise other departments on timber questions, and their views were supported by a letter which stressed "the chaotic conditions which cannot fail to arise during the next twelve months" and sought "like every other such organisation throughout Australia . . . precise knowledge of what is required of us".⁵ The approach had been through the Director of Economic Coordination, who was to see the State Premiers; but even so late as August the full Cabinet could direct that "the Departments of Interior, Supply and the C.S.I.R. confer on the question of timber supplies and methods of use of available supplies. Department of Interior to convene such meeting".⁶

It is possible that the formation of a committee with executive authority was not favoured by the ministry as its experience with administrative problems connected with similar bodies had not been satisfactory, but while such action was delayed much effort and many resources continued to be wasted through lack of coordination. Difficulties were that orders

⁴ A super foot equals 144 cubic inches.

⁵ The writer was a member of the Victorian State Committee and of a Victorian firm.

⁶ Full Cabinet Agendum 400.

were duplicated; authorities ordered independently; collectively there was a call for greater quantities of softwoods than were available;⁷ deliveries were to unusual places, unusual firms and individuals; and to places remote from source of production. Requirements were not being prepared with the knowledge either of the essential requirements of the job or of the possibility of supply; dimensions far greater than necessary were being used. There was a need for guidance in types of timber selected. Northern New South Wales timbers were being railed to South Australia when quite satisfactory supplies could be obtained from Victoria.

Other confusing factors were the reduction of imports under the Import Licensing Regulations⁸ and the recurring financial consideration in dealing with private industry which is mentioned elsewhere: the millers of native timbers looked to some lead from the Government that might indicate whether their investments could be protected in the event of the employment of all their resources in local production and manufacture.

For the time being the decision taken was the appointment of an assistant controller⁹ under the Directorate of Materials Supply in the Department of Munitions, and the central committee of September 1939 became an advisory panel. The problem was attacked through educating the users to avoid uncommon sizes and the specification of highest qualities when these were not necessary. To escape complexities the control authority sought to be notified before orders were placed, so that he could modify specifications or admit alternate timbers. Circulars were compiled and distributed.¹ In the first half of 1941 there were increasing demands from the Munitions Department itself, including aircraft production,² and in May 1941 a controller³ was appointed with the assistant controller continuing in the C.S.I.R. Technical advice by now was less a problem than

⁷ The reduction in imports can be seen in the following table:—

	Sawn output of Native Timber, All Mills 000 sup. ft.	Dressed Timber Imports into Australia 000 sup. ft.	Undressed Timber Imports into Australia 000 sup. ft.
1938/39	717,015	17,778	348,098
1939/40	756,973	12,572	274,875
1940/41	825,634	3,085	100,586
1941/42	913,675	3,021	60,700
1942/43	855,728	1,872	30,075
1943/44	850,130	50	44,738

Commonwealth Year Book No. 35, pp. 862 and 868; No. 36, pp. 883 and 889.

⁸ A survey taken by the Department of Trade and Customs in conjunction with the Department of Supply alleged that the present licensing basis was too liberal (full Cabinet Agendum 496, 18 Nov 1940). As opposed to other imports, where merchants were either "in debt" to the department or had fully utilised import quotas, timber importers had not utilised licences which they could have applied for.

The principal timbers involved were oregon (for building) and hemlock (for cases); already because of increase in the prices of both, Australian timbers had been substituted. Accordingly the recommendation was put forward that oregon imports should be reduced by 40 per cent; and hemlock by 50 per cent as from 1 Aug, by 75 per cent from 1 Apr, and prohibited after 30 Jun.

⁹ Aug 1940. I. H. Boas, who in his capacity at Division of Forest Products, C.S.I.R., had established wide contacts, was appointed.

¹ Two of the most comprehensive were "Timbers in each State Suitable for Definite Uses"; "Recommended Sizes for Building-frame Timbers".

² These had three main aspects so far as native timbers were concerned: maple and coachwood for rifle furniture, ordnance and aircraft; hoop pine for ammunition boxmaking and plywood; hardwoods and scrub woods were needed elsewhere for all types of packing, including exports. Munitions Digest August 1941 estimated that 230 million super feet of native timber was needed to substitute for imported timbers.

³ S. L. Kessell, Conservator of Forests, Western Aust.

the simple business of supply, and the division between the department and the C.S.I.R., by now an artificial one, was replaced by a Timber Control Office in 1941 directly under the Department of Munitions.

RAW MATERIALS

Implicit in the development of war production was the question of adequate supplies of raw materials. Such supplies had been among the first considerations of pre-war planners; that seaborne trade would be interrupted was the accepted hypothesis, and in consequence the more obvious imports, petrol, tinplate, jute, were considered. In this context the Seaborne Trade Committee recommended, early in September 1939, that the Commonwealth should acquire stocks of tinplate, jute (including cornsacks, woolpacks and hessian),⁴ and take action to increase stocks of cotton and paper pulp (recommended by the Panel on Industrial Organisation).⁵ This involved a liability not exceeding £1,000,000 but the Cabinet referred the recommendation back for advice as to whether the stocks were required for defence. In the narrowest sense there was no direct defence aspect, so no further action was taken.

The Department of Supply and Development had been an influential member of the Seaborne Trade Committee and within the department itself the concern over raw materials, which had originated in the Principal Supply Officers' Committee and the later Defence Supply Planning Committee, continued in the new Civil Supply Division.⁶ In its industrial questionnaire of November 1939 the Defence Supply Planning Committee included inquiries about present stocks and required stocks.⁷ It was very evident that civil supply would itself become a prodigious problem, and while it would not be entirely correct to say that the Civil Supply Division was responsible for ensuring supplies of essential materials for defence purposes, it was rather that the same people had to deal with both.

The new Civil Supply Division continued the analysis of returns from the industrial questionnaire but their attention was directed primarily to the needs of the munitions factories, and investigations included copper, cotton, flax, manganese, paper pulp, timber, and certain industrial chemicals.⁸ The chief concern was imported supplies and by 1st June

⁴ The amount was £827,500.

⁵ Here as in the later efforts after Dunkirk the problem of persuading private industry to stockpile involved reassuring them against possible loss if prices fell. The only acceptable reassurance was monetary, the Commonwealth standing any loss.

⁶ Formed in December 1939 under H. C. Green (formerly Assistant Commonwealth Statistician) and also head of the Industrial Survey Section of the Defence Supply Planning Committee.

The permanent head of the Supply Department was especially interested in its establishment and work—partly because he was convinced that it was an aspect which was being overlooked, partly because he was concerned that the broadest view of supply problems should be taken. The speed with which events later affected the department might have been, in part, the reason why the division did not fulfil the comprehensive role he envisaged. Munitions was always the more vigorous member of the department; and munitions supply, as will be seen, never lacked consideration towards the ultimate fulfilment of its needs.

⁷ The survey was taken in much closer detail than earlier efforts and firms were no longer asked what they had done in 1914-18.

The Supply Department's championship of supply certificate procedure was prompted in part by their concern over the control of raw material supplies.

⁸ Other items outside raw materials covered by their investigations were producer gas, tool steels, tools of trade and machine tools.

the Government had been persuaded to grant £1,168,000 for the purchase of stocks of raw materials required for the production of munitions.⁹

In addition to this concern over imports, however, the prohibition of the export of metals and other raw materials was progressively introduced; pipes and tubes on 31st October 1939; aluminium, sulphate of ammonia (and fertilisers containing it as well as phosphate) in November; copper, lead, tin and zinc on 20th December 1939 and on 1st May 1940 a comprehensive prohibition order was gazetted for ores and concentrates, minerals, metals and metal manufactures, drugs and chemicals.

Of the imported items there were special circumstances which prompted the early inception of control over jute. Australia was entirely dependent on oversea supplies; stocks for the new wheat harvest were found to be insufficient; the source of supply was restricted to one country (India)—in fact one area of that country; the purchase was on an open market under highly speculative conditions. Within Australia importers and distributors were reluctant to purchase or stockpile while they faced controlled domestic retail prices on the one hand and uncontrolled and fluctuating wholesale prices in Calcutta on the other. In October 1939 the Department of Supply had helped in a temporary emergency by requisitioning hessian for camps and assisting to secure supplies of cornsacks, which, however, proved insufficient because the New South Wales crop was unusually large. Woolpacks appeared to be more secure, a normal year's supply having been purchased for delivery during 1940.

Immediate concern therefore centred on cornsacks for the wheat farmers, whose normal willingness to expect government rescue from difficulties was sharpened by the gloomy outlook for exports and the possibly serious need for bulk storage if sacks were unavailable. A conference in December, representing importers, distributors and users of jute goods (including the Wheat Board but not the Central Wool Committee, which, however, was consulted) was presented with a Wheat Board plan. Under this the board would handle the whole of the purchasing, importing and distribution of sacks for wheat, financing itself by Commonwealth Bank advance, recouped by deductions from later payments to growers from the wheat pool. Despite the detachment of the Central Wool Committee, the conference preferred a more comprehensive scheme covering all jute imports, pressure for this coming not only from those interested in goods other than cornsacks, but especially from the Prices Branch which was concerned about the impact on local price control of gyrating Calcutta prices.

The solution adopted and implemented in May 1940 provided for a Jute Buyer, appointed by the Commonwealth, whose monopoly of import was ensured by admitting under licence only jute goods purchased in this

⁹ This figure includes the inflated amounts authorised during May 1940. As with expenditure for buildings and plant, there were decisions immediately after war was declared: War Cabinet Minute 6, 29 Sep 1939, provided £150,000 additional to the £150,000 already provided in the 1939-40 Estimates. The amount was "required to ensure that there are sufficient stocks carried to keep the factories working at full production, particularly in regard to imported materials, despite occasional stoppages through shipping failures, enemy action etc." (See also *Commonwealth Debates*, Vol 162, p. 1175, 16 Nov 1939.)

way.¹ For the first two years such controlled purchases were limited to woolpacks and cornsacks.² Cost prices were to be averaged and a selling price in the local market determined by the Prices Commissioner. A Jute Advisory Committee, representing primary producers, the Wheat Board, Central Wool Committee and the jute trade, provided the data for purchases, and distribution was handled through normal trade channels.³

The Department of Supply and Development was concerned about a somewhat similar raw material, flax, although the circumstances of control were rather different from those of jute. Despite efforts at local production, supplies were almost entirely from overseas; but when these were threatened the Government turned to the stimulation of local production as a substitute, just as local producing interests, seeing their opportunity, became active in pressing for government assistance to increase production. Over a number of years there had been ineffectual attempts to develop production of flax in Australia, but only one of these was showing modest success, the enterprise of Flax Fibres Pty Ltd. Starting with 200 acres (in Victoria) in 1936, this had been increased to 2,000 acres by 1939, under arrangements by which farmers grew the crop under contract to the company. In December 1939 the Government, fearful of the loss of oversea supplies, sought to induce the company, which planned a 1940 sowing of 3,600 acres, to increase this to 8,000, which was estimated to yield half Australia's flax needs. The company was not financially strong enough to do this without guarantees, and the outcome was a decision to invite tenders for supply of line and tow fibres, the procedure being adopted to avoid the appearance of conferring a monopoly on Flax Fibres Proprietary although it was (correctly) expected that the company would be the only tenderer.

Barely had these arrangements been concluded in April 1940, based on a contract price of £115 a ton for line fibre, with safeguards for the farmers who were growing the crop under contract to Flax Fibres, when the over-running of Western Europe not only cut off Belgian supplies, but brought an urgent inquiry from England. The United Kingdom wanted not only as much of the yield from the 8,000 acres as it could get, but pressed on Australia seed sufficient for another 12,000 acres. Operations on this scale, with a prospect of further increase, could not be handled through the existing arrangement, especially as the British request in June left very little time for the sowing of the seed to be organised.

The solution found was that the Government superseded Flax Fibres, protecting the company's interests and satisfying its obligations by leasing the business. A Flax Production Committee in July 1940 took over the company's functions of making contracts with farmers, supplying seed and purchasing straw, and arranging for the establishment and operation of mills.⁴

¹ National Security (Jute) Regulations, Statutory Rules 1940, No. 84, 9 May.

² The Colonial Sugar Refining Company was exempted from the scheme and made its own arrangements for sugar bags, under import licences supplied by the Jute Controller.

³ The chairman, J. A. Stevenson, was also chairman of the Flax Production Committee.

⁴ Members were J. A. Stevenson (Dept Supply and Development) chairman, A. E. V. Richardson

Acting with vigour the committee planned to sow a further 13,000 acres on behalf of the United Kingdom, choosing Victoria, Western Australia and Tasmania because of the lateness in the sowing season. The cooperation of State agriculture departments made possible rapid completion of contracts with farmers in selected areas (based upon a standard price of £5 a ton for straw): Then the committee turned its attention to creating the processing mills which would be required to supplement the four then in Victoria, the total being raised to thirteen. The final results of these activities, not complete until late 1941, because of the long processing period, were poor, mainly because of adverse weather. The yield was only 17,000 tons of straw from 21,000 acres, with an end product of 787 tons of line fibre. But before then the project was passing into a more ambitious stage, the result of a British offer to purchase for the duration of the war the output of 50,000 acres.

PETROL AND SUBSTITUTE FUELS

The difficulties encountered in dealing with jute and flax were considerable, but they were as nothing compared with the vexed negotiations which preceded the effective control of petrol supplies and consumption. As far back as 1931 oil fuels had been under review by the Defence Department. In September 1938 the Oil Fuel Sub-Committee was joined in its work by the Standing Committee on Liquid Fuels and the new committee criticised the initial pre-war scheme on the grounds of under-estimation of Australian requirements. In May 1939 the whole petrol position was reviewed by the Oil Fuel Sub-Committee in a statement which analysed service and civil requirements in wartime, and suggested various methods by which stocks and supplies might be improved. This statement outlined three main methods:

1. The provision of additional stocks and storage by arrangement with the oil companies, or by fixing minimum stocks to be held by oil companies (with a system of bounties for compliance) which might effect a pooling of oil companies' resources and a combined and more efficient use of tankers.
2. An increase in the severity of the proposed scheme to limit overall civil consumption and ration civil supplies on the basis of essentiality.
3. The encouragement of local production of liquid fuels from indigenous resources, and a greater use of substitute fuels (for example, producer gas and town gas).

These three methods were all tried subsequently, but to begin with preference lay with the increased storage of petrols and oils (rather than production of substitute petrol products) "from the point of view of the time factor and the cost". In August 1939 the Minister for Supply reported that "after some negotiation with the oil companies I have got them to agree to increase stocks of petrol and all other of their products by at least 15 per cent at their own cost".⁵

(C.S.I.R.), I. H. Boas (C.S.I.R.), R. B. Hogg and E. H. Kinnear (Flax Fibres Pty) and representatives of State departments of agriculture in Victoria, Tasmania and Western Australia.

In December it became a statutory body; National Security (Flax Production) Regulations, Statutory Rules 1940, No. 296, 24 Dec.

⁵ Full Cabinet Agendum 161, 24 Aug 1939.

Preparation of a suitable scheme of rationing had fallen to the Commonwealth Oil Board (the new name for the earlier Oil Fuel Subcommittee) which carried on the work done earlier,⁶ and as a move towards practical preparation for the inception of a scheme, the board convened a conference with State road transport authorities on 2nd and 3rd September 1939. To them was presented, in more or less final form, a scheme based on the United Kingdom system, which was described to the conference. A "first check was the licensing of vehicles for the use of motor spirit"; second the licensing in classes (private cars, goods vehicles, highway service cars, buses, taxis, trucks, farm implements, industrial power etc.); and third "actual rationing for each class, that is, essential, preferred, others".⁷ General agreement on a course of action was achieved:

By the Commonwealth:

- (1) Minister of Supply and Development to advise State Transport Ministers and issue an appropriate press statement.
- (2) Regulations to be completed and proclaimed.
- (3) State Governments to nominate representatives to State Transport authorities or whole authority, that is a Liquid Fuel Board.
- (4) Pamphlet to be prepared and issued.
- (5) "That oil companies be invited to cooperate in putting into operation a scheme of voluntary control of consumption of petrol products other than motor spirit and diesel oil and of motor spirit in drums pending the introduction of any compulsory rationing of this product."

By each State:

- (1) To print and circulate forms of application for consumer's licence. Date for return of forms would need to be determined.
- (2) Prepare complete system of classification of consumers and of administration.
- (3) Classify applications from consumers provisionally.
- (4) Warn district authorities of possible introduction of a rationing plan and issue instructions necessary.
- (5) Encourage appropriate action for voluntary grouping.
- (6) Desirability of exempting remote areas from plan and submit recommendations to Oil Board.
- (7) Review the probable result of classification upon normal consumption figures and advise the Oil Board.

This plan was reported to the Cabinet, but no decision was recorded; the cooperation of the States was reiterated at the Premiers' Conference some days later, the States having in the meantime been asked by letter to carry out the first stage. But, said the Minister for Supply, "It is not necessary at this stage to introduce rationing . . .". Moreover stocks were "at least as good as in any other country that does not produce petrol and they compare favourably with the position in Great Britain".⁸

⁶ After the establishment of the Department of Supply and Development, the board was constituted in August 1939; its chairman was J. B. Brigden.

⁷ Full Cabinet Agendum 173, 4 Sep 1939. "The classification of licensed uses may be the most important element in the scheme." It was; and the problem recurs elsewhere even so late as rationalisation plans of the Department of War Organisation of Industry. It affected every scheme from manpower to capital issues and must be regarded as one of the most difficult, as it was the most constant, of the war.

⁸ Proceedings of Conference of Commonwealth and State Ministers, 9 Sep 1939 (printed), p. 18.

New Zealand had meantime introduced rationing, and the Commonwealth Government had asked the reasons for this action. The inference drawn from New Zealand's answer was that the reasons were connected almost solely with overseas exchange. It was as part of Australian Cabinet discussions of overseas exchange restrictions that the question of rationing of petrol again came up on 19th October. This time it was accompanied by a "programme of gradual restriction" favoured by the Commonwealth Oil Board, which recommended that the scheme be introduced "on first Monday in December but to make no statement of this intention until a few days beforehand".⁹ Rationing would be commenced on a basis of a two-gallon ration unit—giving the "lowest horse power private cars a ration of eight gallons a month (at least fifty per cent more than the United Kingdom)". The estimated reduction in consumption was stated to be twenty per cent plus the effects of voluntary rationing. Strong protests were being made by the Federal Council of the Chambers of Automotive Industries, who stressed dislocation in motor body building, car sales and car sales finance, as well as service-station industries, and who recommended substitute fuels and voluntary rationing as expedients.

The Cabinet submission recorded that

The Australian position at present is that petrol stocks are ample for at least three months' normal consumption. Other stocks vary but are on the whole better. . . . Total consumption has, of course, increased through defence activities but if present conditions continue the increase would not be substantial in relation to total consumption. . . .

There is no need to reduce private consumption because of stocks or because of any prospective shortage of tankers or of overseas supplies. . . .

Restriction must be brought in gradually otherwise tankers would not be able to empty on arrival. . . .

and the decision was made against the introduction of the scheme. In the ensuing five months the question of petrol was treated only as it related to import licensing and exchange. In a minor matter of administration some confusion had to be resolved. The quota system under which import licensing was administered would have a detrimental effect on the stock position, and on the avowed policy of the Government to increase petrol stocks. In part the Department of Trade and Customs had allowed concessions, inasmuch as quotas were being "based on quantity instead of value".¹ Ultimately in May the Cabinet recognised the Supply Department's responsibility for imports and exports of petrol products. The restriction was removed and imports permitted freely "subject to certificate by the Supply Department whose aim would be to maintain stocks at the highest possible level".²

The abortive conference of April 1940, described in an earlier chapter, got no further than "voluntary" schemes towards "imposing restrictions which it is necessary to make on the importation of motor cars and

⁹ Full Cabinet Agendum, 207, 17 Oct 1940.

¹ Commonwealth Oil Board, Meeting 2 Mar 1940.

² Commonwealth Oil Board, Meeting 17 May 1940. Proclamation in *Commonwealth Gazette*, 1 May 1940.

petroleum products".³ The Director of Economic Coordination who had convened the conference produced on 6th May detailed recommendations on petrol restrictions which included appeals to the public, an educative campaign on efficient use of vehicles, economy of use in government services, prohibition of speed trials and racing, imposition of speed limits, and study of the use of substitutes. In approving these on 14th May the Cabinet agreed "that a system of rationing for petrol should be introduced". The only decision that really mattered had been taken.

The scheme submitted by the Commonwealth Oil Board to the transport authorities in the first days of September was revised, but as the chairman pointed out:

The scheme itself is an outline only, and was intended to be elaborated after further consultation. It requires a period of at least eight weeks between the time of its announcement and the commencement of actual rationing. At the time of its adoption *ample time was available for such preparation.*

To discuss this scheme the Treasurer and Minister for Supply conferred with an advisory committee appointed from persons who had attended the conference held in April. This committee objected to rationing and made suggestions on detail which, said the Minister for Supply, "would be taken into account in administering". From the Cabinet he asked and received approval of appointment of a Controller of Petroleum Products⁴ and a Central Liquid Fuel Control Board,⁵ and regulations gave legal effect to the decision the following month.⁶

Once again the scheme for rationing was discussed, this time by the newly constituted authority. Within the three basic categories of essentiality the number of classes of users was extended to twenty-seven (for private cars five such classes, for commercial vehicles seven). Further, the number of horse-power grades for private cars was increased to seven. The effect of these changes was to soften the impact of consumer rationing and to reduce the overall saving possible, although the ration unit content of one gallon and the basic ration for private cars were preserved at the original figures. When these proposals were submitted to the Petrol Advisory Committee (that is the companies and the trade) there was strong criticism of the allowance to be made to private users (allowance equivalent of forty miles a week based on an estimated reduction of fifty per cent of the average previous running). On 17th July Cabinet approved that the Liquid Fuel Control Board be enlarged,⁷ and at its first meeting

³ Full Cabinet Minute 322, 29 Mar 1940.

⁴ J. E. England, chairman of the State Transport Commission, Queensland.

⁵ Originally it was intended that the Oil Board should be the controlling authority, but in deference to the opinions expressed at the recent conference, and on the advisory committee, a separate controlling body was recommended.

⁶ National Security (Liquid Fuel) Regulations, Statutory Rules 1940 No. 129, 6 Jul. The board included the chairman of the Commonwealth Oil Board, the executive officer of that board, the Controller of Liquid Fuels and two representatives of consumers.

⁷ Statutory Rules 1940, No. 161, 14 Aug. The board was to consist of the Controller of Liquid Fuels, the executive officer of the Commonwealth Oil Board, and five members who would represent: rural consumers, heavy vehicle users, other consumers, the motor trade, and retailers of liquid fuel. A Cabinet decision of 17 Jul 1940 agreed "that the Secretary of the Department of Supply and Development be no longer a member of the board owing to pressure of other duties upon his time"; constructive thought about petrol problems, however, had been substantially his, and it has been contended that his removal was the result of "propaganda and representations of interested parties".

thereafter the board recommended the increase of the private users' ration to sixty miles a week. This scheme went to the Cabinet which, after hearing further representations from the automotive associations of Australia, approved the increase of the private users' ration to eighty miles a week.⁸

When the regulations had brought the board into existence in July the tentative date for the scheme to begin was set at 1st September 1940. Quite apart from the hostile propaganda, which reached egregious heights (or depths) in the September election campaign,⁹ and the delay imposed by the elections themselves, it is doubtful whether the mass of administrative detail, in particular the reception, sorting and return of licences to the 1,050,000 individuals involved, could have been accomplished in the time. Accordingly the scheme came into active operation on 1st October.¹ The administrative difficulties—despite the months during which, it might be argued, the department had time to prepare itself (but nevertheless lacked any high policy directive on which to act)—must not be underrated. There was, for instance, a lack of basic statistics in identifiable vehicle groups. Information gave an inkling of vehicle types, but not function. For example in Victoria the breakup was: cars (private), cars (commercial vehicle), cars (primary producer), cars (hire), buses, cycles (motor), for which the word "private" had not the rationing meaning of "pleasure" but indicated merely the registration fee; "commercial vehicle" included both hire and reward carrying, as well as in the course of trade. Research into consumer usage groups was negligible, and to begin with decisions were made on information submitted by interested organisations which (with or without a will to deceive) over-estimated, for instance, average annual mileage. (Vehicles solely for pleasure, it was asserted, had an average annual mileage of 5,000. Subsequently the initial ration formula of 4,000—80 miles a week—was proved to be 1,000 to 1,500 in excess of average normal running.)

Imports of liquid fuel had been:²

	Crude Petroleum million gallons	Petroleum spirit million gallons
1935-36	65	255
1936-37	60	282
1937-38	70	333
1938-39	54	345

The base year (1938-39) consumption was quoted at the time as 360,000,000 gallons and the scheme aimed to reduce this by one-third. There was not much chance of success. In addition to uncertainties in statistics, mentioned above, the "rumour" of rationing had been common property now for months, and abnormal sales made it very clear that

⁸ This meant only 26 per cent instead of 33 1/3 per cent reduction, but the figures were "only speculative" (full Cabinet Minute 440, 16 Aug.).

⁹ In Parliament see Earle Page's motion, *Commonwealth Debates*, Vol 164, p. 258, 7 Aug 1940.

¹ A flaw in the regulations concerning the style of ration tickets prescribed was also a cause of delay. A book of tickets was provided in the regulations instead of separate tickets in perforated sheets.

² Source: *Commonwealth Year Book*, No. 33, p. 132.

hoarding on a considerable scale had occurred.³ Three months later the Cabinet could not be given accurate statements for this and other reasons.⁴ For the three months the reduction was estimated (in bulk sales) at 19 per cent on 1938 figures and 23 per cent on 1939. If the reduction of 33½ per cent—the Government's objective—was to be achieved, firm action was necessary, and on 24th January 1941 Cabinet decided that "thenceforth tickets be issued for two months at each issue and that they expire at the end of each two monthly period . . . that the private user ration be reduced to 3,000 miles and that the question of the method to be adopted to achieve the one-third reduction in consumption be referred to the Liquid Fuel Control Board for examination and report".⁵

As a result, on 1st April 1941 new scales of ration were introduced. These had been presented to the full Cabinet in March by the Minister for Supply, side by side with the rations of New Zealand and the United Kingdom.

Australia		New Zealand		United Kingdom	
horse power	gallons per month	horse power	gallons per month	horse power	gallons per month
To 8	7			To 7	4
8-10	8	To 9½	5	8-9	5
10-12	10			10-12	6
12-14	11	9½ to 14½	7½	13-15	7
14-20	12			16-19	8
20-30	14	over 14½	10	20 and over	10
over 30	17				

To begin with the exchange position had been the most used (though not always the most effective) argument for reduction; from March 1941 a much more potent argument, "the tanker and stock position", could be produced. As with so many other items the inescapable facts of inadequate present and unpredictable future supplies prompted at last the firm decisions so long delayed.

After the outbreak of war stocks continued to come from the oil companies and to be imported and distributed through their organisation. Storage space was represented by the bulk facilities of the companies; by

³ Stewart, on 6 Jun 1940 (full Cabinet Agendum 322) in commenting on the Cabinet decision that a census should be taken of private stocks pointed out that many hoarders were breaking municipal and other regulations covering storage of inflammable liquids.

⁴ Full Cabinet Agendum 540a, 15 Jan 1941, quotes as reasons:

- (a) use of hoarded stocks particularly during September;
- (b) extent to which tickets have been saved and extent December and January ration used before end December;
- (c) extent to which resellers have reduced stocks by sales to consumers between October and 31st December and failed to purchase equivalent amounts from oil companies;
- (d) failure of resellers generally to furnish, promptly and efficiently made out, the returns required under the regulations.

⁵ Full Cabinet Minute 540a, 24 Jan 1941. Despite this decision, a suggestion by the Oil Board that the present ration tickets, which were current for six months, should be terminated without notice at a date earlier than 31st March, thus doing something to remedy the so far small reduction (one estimate was as low as 8 per cent) on the base year figure, was not approved by the Cabinet, with the result that the March sales were approximately 12,000,000 gallons above the January-February average. The consumers had, of course, redeemed all their balance before the tickets expired at the end of March.

the various types of resellers' pumps; as well as by drums. This space had to be related to the arrival of petrol. But in addition there were special features in the requirements of the forces: fuel oil for the navy; petrol for the army; and the special high grade aviation petrol for the air force.

The navy was early in the picture and in February 1940 reported:

The Admiralty have advised that the Ministry of Shipping [in England] and the oil companies are now developing organisation which can exercise control over supply and distribution of Commonwealth oil stocks. By this means stocks of fuel in the United Kingdom and British tanker tonnage will be conserved. The Naval Board had anticipated this and consequently had not attempted to exercise control over commercial stocks of oil fuel.

At Fremantle, the Chief of the Naval Staff continued, the first of four 12,000-ton oil fuel tanks had been completed, and cargo for this was due on 4th February. A week later he reported that at Brisbane the first tank was due for completion in February, but would not be ready until May, but all tanks would be completed by September.

Stocks were considered as part of the decision to institute rationing, and on 17th June 1940 the Supply Minister, in suggesting that rationing "commence in two months time", pointed out that "... incoming tankers could not be discharged as planned if consumption fell beyond that reckoned on". Oil companies "present bulk capacity" was estimated at 140,000,000 gallons, and in addition 10,000,000 gallons for aviation spirit; storage capacity of "resellers" (that is roadside pumps) was estimated to be 28,000,000 gallons. At the time it was estimated that oil companies' storage capacity was used to the extent of about sixty-seven per cent; and resellers' tanks filled to about fifty per cent.

Liaison with the oil companies had been maintained from before the war, but their methods had not been without criticism⁶ and in the Cabinet on 7th May 1940 the question of tenders for service contracts prompted a sub-committee "to decide upon terms of reference necessary for an enquiry into the operations of the major oil companies". No further note of this appeared, but it would seem clear that a firmer attitude was developing within the Government, particularly as events overseas became more serious. Continuing his submission on storage on 17th June, the Minister for Supply pointed out that great increase in effective use of all storage capacity could be achieved by "pooling" which involved (for the time) the abolition of individual brands and marketing. Such a scheme had operated in Great Britain since early in the war—one standard specification (or octane rating) being applied to all petrol. Were this system introduced into Australia the total tankage capacity of 168,000,000 gallons could be used to probably ninety per cent. In addition he suggested further tanks away from the seaboard.

The Cabinet's decision was prompt, and a conference on pooling was arranged immediately; similarly a scheme for ten storage tanks, when brought forward, was approved late in June at a cost of £75,000. In the

⁶ See *Commonwealth Debates*, Vol 163, p. 526, 3 May 1940.

event a cartel agreement, to date from 1st July 1940,⁷ replaced for a year or more the idea of pooling. This eliminated some of the features of competitive trading, and a measure of rationalisation in the industry was achieved. The Minister for Supply, however, did not give up the original notion, and despite suggestions from the Cartel Committee (which were later carried out in the formation of a Tankage Committee) for pooling of tankers and seaboard stocks, and for discharge at one or two ports only, as well as more expedition generally, he "doubted whether effective action could be taken short of complete pooling which would simplify the financial and price problems also and help with the small Sydney companies and the retail trade".⁸

The new storage tanks had meantime proceeded slowly. Their total capacity was now to be 10,000,000 gallons and £150,000 had been appropriated for the purpose, but by January only one (at Bendigo) was under construction because both the army and the oil companies had objected to the original scheme.⁹ Nevertheless for the moment this did not produce serious difficulty because there was "still ample space in seaboard tankage".¹ In any case the submission of 24th January 1941 switched emphasis to a new idea of "arranging with the cartel or pool for the erection of new tanks in their inland depots at locations and in sizes to be determined in consultation with the army and its railway advisers", while a scheme submitted to the War Cabinet for the acquisition of 7,000,000 gallons in drums was taken up.

In August 1940 the War Cabinet was asked for a decision on aviation spirit stocks. Before the war the plan had been for a reserve of 6,400,000 gallons (that is, the requirements of nineteen squadrons) and although this had not been achieved (approximately 5,500,000 was the holding) it did not matter so much because a force of nineteen squadrons had not been achieved either. When the Empire Air Training Scheme requirements could be calculated the companies had agreed to increase their holdings progressively, but now plans were afoot to expand the force to thirty-two squadrons, the present contract was to expire on 31st December, and it was "not considered reasonable that the present contractors should be requested to further increase their stocks without some assurance of continuance of business for a reasonable period".² The suggestion therefore was that the Department of Supply should purchase 3,000,000 gallons and that three 1,200,000-gallon storage tanks should be built. The Cabinet

⁷ As far as this reached legal form, it was backed by the National Security (Liquid Fuel Bulk Supply) Regulations, Statutory Rules 1940, No. 214, 30 Sep.

⁸ Full Cabinet Agendum 536, 24 Jan 1941.

⁹ The first proposal (full Cabinet Agendum 322, 17 Jun 1940) had stressed the advantage of concrete as the building material; it avoided the use of steel (except for reinforcing) and required less skilled labour. The Oil Board was also interested in private experiments on a design of water-jacketed tanks, but awaited an independent technical report, which later endorsed the new material and design. But actual cost of concrete proved higher than estimated and the department reverted to steel, which meant delay.

The army wanted a much greater dispersal of tanks inland for reasons of rail transport. (War Cabinet Agendum 536, 24 Jan 1941.)

¹ Full Cabinet Agendum 536, 24 Jan 1941.

² War Cabinet Agendum 182/1940, 12 Aug; Minute 468, 29 Aug. Note the appearance once again of the request for protection of private interest in the future, and that that protection should take the form of assurances by government.

approved the purchase and sent the storage problem to the Commonwealth Oil Board. The board recommended six 200,000-gallon tanks—two each in three centres, to be approved by the Air Staff. But by March 1941 the three centres were revised to twelve and the total capacity was now 4,030,000 gallons.

There might be grounds for satisfaction with these attempts to provide extra storage tanks; there could be none over the provision of the petrol they were intended to hold. After the reduction of the ration which came into force on 1st April 1941, the Supply Minister in the middle of that month placed before the full Cabinet comparative sales figures for six months.³ "The effect of rationing and of all other inducements to reduced consumption," he submitted, "may therefore be estimated at a figure of 16 per cent (that is, *consumption has been reduced by 16 per cent*)."³ Diversion of tankers to meet the special needs of the United Kingdom, side by side with the persistently high sales, had reduced stocks to 82,000,000 gallons, "with no immediate prospects of restoring stocks even to their former level".

By the beginning of May he reported "the prospective stock position has deteriorated so much and the prospects of tankers are so uncertain that I feel bound to report the matter to Cabinet". He complained about inability to get information from the United Kingdom authorities despite attempts by the Prime Minister and another visiting parliamentarian. The Government had protested about "our insecurity" with reference to tankers and had been promised a tanker programme which, if maintained, would bring stocks at the end of June to about 65,000,000 gallons.⁴

Meantime on 2nd May the minister sought and received permission to reduce use of private cars and cycles to 2,000 miles a year and to make varying percentage reductions in other classes to fulfil the one-third cut "recommended by the original rationing board about twelve months ago". The extent to which the general stock position had deteriorated was put to the War Cabinet by the army on 30th May 1941. Stocks were:

31 July 1940	101,610,000 gallons
30 September 1940	87,725,000 (a)
30 November 1940	100,000,000

³ Full Cabinet Agendum 640, 17 Apr 1941, presented the following comparative sales figures:—

	1938-39 gallons	1940-41 gallons
October	28,530,690	23,139,474
November	29,925,776	19,550,345
December	33,284,444	23,984,960
January	29,261,526	24,963,551
February	28,688,545	24,841,418
March	29,531,761	35,500,000
	<u>179,222,742</u>	<u>151,979,748</u>

"Essential sales" over pre-war to the army and for other special war purposes were "estimated on good information" to be about 2½ million gallons, which reduced the latter column (for civil usage) to approximately 149½ million gallons.

Peak months for sales had been:

September 1939	38,007,727 gallons
September 1940	34,579,000
March 1941 (end of first rationing period)	35,500,000

⁴ Given a consumption of 20,000,000 gallons a month for civilians (that is on the basis of a full one-third cut) the stocks in prospect for civil use (40,000,000 gallons) meant only two months supply for these users.

31 December 1940 . . .	101,014,000
31 January 1941 . . .	98,483,000
28 February 1941 . . .	90,671,000
31 March 1941 . . .	72,466,000
30 April 1941 . . .	63,213,000

(a) due to hoarding and to retailers filling their available tank space capacity.

The forecast by the Liquid Fuel Control Board for the next three months was:

31 May 1941 . . .	67,573,000
30 June 1941 . . .	60,333,000
31 July 1941 . . .	51,730,000

Average monthly sales January to April had been 26,811,000 gallons; average imports for the same period 12,260,000. In July 1940⁵ the Cabinet had agreed on army reserves for six months which were, ultimately, estimated at 42,000,000 gallons.⁶ The army quoted essential civil sources "with a priority probably equal to the Service" as needing 60,000,000 gallons for their six months' reserves, which meant a total of over 100,000,000 gallons. Allowing that stocks should be maintained at least round 90,000,000 gallons the forecast for the end of July, 51,730,000, was "most serious and dangerous to the defence of the country".

The army's figures were repeated in a submission by the Minister for Supply to the full Cabinet on 11th June 1941, in which he reported that the new ration scale to bring consumption to a figure of 20,000,000 gallons a month was now in force. But news of future tankers was poor. In an endeavour to bring aviation spirit reserves up, only 7,000,000 gallons of motor spirit would come in in June; quantities for July were uncertain. The minister recounted at length the sorry story of the delay in rationing and that "it resulted in only half the saving in consumption that had been forecast by the motor trade whose advice had been accepted by the Government in August". He reiterated the statement that no warning was given by the United Kingdom of any alteration in the tanker position and only early in 1941 was it known that diversions, thought to be temporary, would become pronounced. He concluded:

It is open to question whether severe rationing of the order I am now bound to suggest should be conducted by the civil authorities on their own account or under the authority of the army. The army in association with my Controller of Liquid Fuels has evolved a mobilisation petrol scheme which would be operated by my department. I gather that the army would prefer the rationing to be conducted entirely under the authority of my department.

In view of the opinion expressed by the Oil Board, strongly supported as it is by the Department of the Army, I have no option but to recommend that I be authorised to reduce the monthly consumption of motor spirit for civil purposes to a level of 12,000,000 per month as soon as that may be practicable. If necessary

⁵ War Cabinet Minute 435: "Annual petrol requirements of the army in the event of war in Australia would be 60,000,000 gallons and Cabinet approved of action being taken to ensure a reserve based on 6 months' requirements should definitely be made available to Army from stocks existing in the country on the outbreak of hostilities and placed under Government control." Methods etc. were to be worked out with the Oil Board.

⁶ This "allows increased mechanisation and motorisation of A.M.F. but did not include the armoured division".

the use of private cars other than for business purposes could be stopped as from the beginning of next month and certain other classes could be reduced at the same time. The full scheme could not be introduced, unless the Army Mobilisation System were brought in, until August.⁷

Such proposals were drastic; but the Cabinet deferred only long enough to ask the Minister for Supply to present two schedules, one with, and one without, private cars (that is, class 2 in the rationing schedule), designed to bring consumption to the required 12,000,000 gallons.⁸ The decision was to keep private cars on the road, but to allow them 1,000 miles a year only. The following evening, 17th June, the Prime Minister announced the reductions which would begin with the August issue of ration tickets.

The shoe was beginning to pinch. If further restrictions were needed—and no one could say that they would not be—some thought would have to be given to other ways of economising: rationalising delivery services, zoning, transport pools. In effect, for the future, the petrol problem was not just one of simple restriction. Like so many other problems it could no longer be dealt with in isolation, and indicative of the Government's realisation of the need to relate problems one with another, the Prime Minister included in his reorganised cabinet of June 1941 the portfolio of War Organisation of Industry.

Before and during the institution of petrol rationing the Department of Supply had proceeded steadily with the development of substitute fuels. These involved gas produced from burning charcoal ("producer gas"), petrol from shale oil, power alcohol, compressed gas, benzol and petroleum mixtures.⁹ The first three only were actively canvassed in the early months of war, although, pushed to extremes of economy, users adopted both compressed gas and mixtures in the leanest war years. Producer gas was not unknown to vehicle owners in Western Australia before the war, but in the eastern States not only were owners unfamiliar with the substitute fuel but manufacture of the necessary generating units had to be stimulated. To begin with the Commonwealth Oil Board appointed a committee which included the Council for Scientific and Industrial Research, the army, Melbourne University and motor manufacturers; the committee recommended that the Government invite tenders for construction in quantity of producer gas units and aid in their disposal by

⁷ Full Cabinet Agendum 640, 11 Jun 1941.

⁸ Full Cabinet Agendum 640, 16 Jun 1941. Classes 16 ("drive-yourself" cars) and 21 (pleasure boats) were eliminated altogether.

⁹ The Standing Committee on Liquid Fuels, set up in September 1938, was to coordinate knowledge concerning the production of liquid fuels and the use of substitutes therefor and of furnishing information on methods by which Australia might obtain greater independence in regard to fuel supplies. Its eight reports were:—

1. Liquid fuels generally (including benzol and power alcohol).

2. Shale oil.

3. Producer gas.

4. Oil from coal (25 Jul 1939; *Parliamentary Papers* No. 258).

5. Compressed gas (6 Nov 1939; *Parliamentary Papers* No. 259).

6. Tar fuel.

7. Review of position of substitute fuels (14 May 1940; *Parliamentary Papers* No. 35).

8. Reclamation of used lubricating oil.

a guarantee of sale. A conference in December 1939 between Commonwealth and State governments produced a Commonwealth Technical Committee with technical committees in each State to specify standards for units and charcoal fuel and to provide testing facilities. But the units were not popular and their general adoption waited on the introduction of a petrol ration sufficiently severe to compel users to look for substitutes. For 1940 the role of producer gas was almost solely as a theoretical alternative to petrol when the effects of petrol rationing were being discussed. A measure of protection for early users was thought necessary, however, in view of the experimental nature of the fuel, and following a Cabinet submission by the Supply Department in August 1940 manufacture and sale of units and charcoal were prohibited except under licence from the Director of Substitute Fuels.¹

The development of petrol from shale on the other hand was already being advanced in the Newnes-Capertee district, New South Wales, with the aid of government capital, when war began.² The project acquired more importance as it became clear that petrol supplies must be reduced. In December 1939 the Assistant Minister for Supply and Development reported that the Government had asked the company to explore the possibilities of increasing the estimated 10,000,000 gallons of petrol to be produced, to 30,000,000 a year.³ In fact, nine months were to elapse before the actual production of petrol from the crude oil began and the annual figures proved to be:

	gallons
1940 . . .	541,858
1941 . . .	1,999,018
1942 . . .	1,559,823
1943 . . .	1,737,748

Arrangements had been made to market the petrol through the usual commercial channels, at a price corresponding to import parity at the point of distribution. Earlier, in November 1939, with the increase in excise on imported petrol, the Government had adopted excise on locally produced fuel; later, in August 1940, it was agreed that the difference between the import parity price and the local production price should be paid into a special account.

¹ Statutory Rules 1940, No. 288, 13 Dec.

² *National Oil Pty. Ltd. Agreement Act 1937*. The Commonwealth and New South Wales governments agreed to share the capital cost with the company and additional benefits were accorded in the way of tariff protection and duty free admission of plant and certain materials. (*Commonwealth Debates*, Vol 162, pp. 2108-9, 5 Dec 1939.)

Capital was provided by the company (£166,000), the Commonwealth (£334,000), and the New South Wales Government (£166,000) (*Munitions Digest*, Aug 1940, p. 152).

³ Full Cabinet Minute 256, 6 Dec 1939. (*Commonwealth Debates*, Vol 162, p. 2109.) The Government preferred to defer the company's queries about protection for this additional production for investigation by the Tariff Board.

The company represented in April 1940 that a further capitalisation of £333,000 would be necessary to bring the enterprise to the production stage for 10,000,000 gallons. (They gave increased costs, basic wage and commodity rises as the reasons, and the fact that the original capitalisation of £666,000 had been based on an output of 7,250,000 gallons of petrol a year.)

Arrangements were eventually made for the company to provide a further £80,000 and the Commonwealth Bank granted the company an overdraft up to £250,000 which was guaranteed by the Commonwealth. (*Munitions Digest*, Aug 1940, p. 153.) Cracking of petrol from crude oil commenced on 26 Aug 1940.

Power alcohol was actually being produced before the war chiefly by companies interested in sugar. In December 1939 capacities of "existing and proposed distilleries" were estimated by the Supply Department to be:

Sarina, Queensland (National Power Alcohol Company)	2,000,000 gallons
Pymont, New South Wales (Colonial Sugar Refining Company)	4,000,000 gallons
Yarraville, Victoria (Colonial Sugar Refining Company)	1,500,000 gallons

Sarina had operated since 1928, Pymont since 1938 and Yarraville was to be built in 1940. The figures quoted by the minister (he said that Sarina was to be increased to 2,500,000 in 1940) were far in excess of actual production, which was hampered by competing demands for molasses, the raw material used in the distilleries. Sarina's production was, to 1940:

1935	.	.	315,000 gallons
1936	.	.	499,000
1937	.	.	577,000
1938	.	.	598,000
1939	.	.	898,000
1940	.	.	1,183,000

The "combined output of the distilleries in 1940 was approximately 2,000,000 gallons".⁴

The chief use of power alcohol as a fuel was as a blend with petrol—up to twenty per cent was efficient—and this had become normal practice in Queensland as a result of legislation requiring the purchase of power alcohol "at least equal to a prescribed number of gallons for every 100 gallons of motor spirit sold".⁵ It was a 2 per cent blend in April 1940, and although in general the idea received approval, the view taken was that "it would apparently be necessary for the Commonwealth to acquire compulsorily the molasses produced on the cane fields to ensure supplies for larger output".⁶ The matter rested until August 1940 when a full scale enquiry was put in train. By the time its full report came out (17th May 1941) and was printed, the administration and the public were taking a much more serious view of the need to restrict petrol consumption.

Other sources of fuel were actively supported in the early months of war; in part they must be considered a manifestation in wartime of the traditional urge to "develop" whenever the time was opportune. In part, of course, they were genuine attempts to make the country self-sufficient in vital materials. One of these, the search for oil at Lakes Entrance, Gippsland, Victoria, involved inspection by a local expert in December 1939 and later by American experts in July 1941. Shale deposits at Baerami (near Rylstone, New South Wales) were also advanced as warranting development.

⁴ Report of Committee of Enquiry (*Parliamentary Papers*, No. 43, 25 Jun 1941), p. 14.

⁵ Report, p. 13.

⁶ Economic Cabinet Agendum 47/40. There was a conflict of interest between the oil companies and the producers of power alcohol which had to be solved; the producers wanted their power alcohol blended with standard grade petrol to give a high octane rating similar to the old "super-grade" petrol, but the oil companies objected to this. A compromise was to allow a maximum octane rating for the blend several points higher than for other motor spirit. (Full Cabinet Agendum 322, 13 Aug 1940.)

THE COMPLEXITIES OF SUPPLY

Contracts, Administration and Finance.

In the early stages of the war there was a general reliance by the Government on the principle of "meeting the market", of paying a price which would induce supply. Price control, as has been seen, was conceived primarily as ensuring "fair" prices to consumers of civilian goods; prices of supplies to the Government were in general left alone by the Prices Branch. They were subject to some measure of control, but only for the purpose of preventing the grosser forms of exploitation and excessive profit-making. On the whole the Government was prepared to meet prices which were influenced by competition from civilian demand, and only rarely as yet was there action designed to shut off competing demands so that government needs should have priority irrespective of prices. Requisitioning was little used, and controls of alternative uses of resources were not only limited in scope and severity, but were not usually related to the price the Government was asked to pay.

In part it could be argued that this approach, at this stage when the war "effort" was small in relation to population and national income, was administratively simplest. This, in turn, was bound up with the structure and qualities of the administrative organisation with which the war began. The nature and techniques of a war economy were outside Australian experience, and could only be learned painfully and, while the war remained remote, slowly. But a dominant factor was the unwillingness of Australians to accept the restrictions on freedom and changes of habits which any more direct technique would impose. The rationing function of the price mechanism was least efficiently performed in the needed curtailment of imports, the restriction of private capital investment, and the distribution of petrol, and it was precisely here that efforts to impose more direct controls were delayed and, when introduced, weakened and complicated by resistance and evasion.

It was, moreover, at this early stage possible, except in a few such special cases, to pursue the technique of meeting the market. As available overseas supplies contracted and the munitions and aircraft programmes grew and gathered momentum, the problem, of which petrol was one illustration, was to become commonplace. When no practicable price could solve the problem of allocating total supplies which were inadequate to meet competing demands, controls spread rapidly. But that was, except in special instances, a stage still to be reached. Until it had arrived, the problem of allocating scarce supplies to competing demands received little attention. Whether in securing manpower for munitions, or supplies for the Contract Board, the general principle of voluntarism found its specific expression in "meeting the market".

Even with a small-scale war effort this was not without its difficulties. Apart from such special supply problems of material as the large works programmes threw up, there were questions of general policy which, in the early months of war, remained somewhat indefinite, or, if definite, too loosely handled, with consequent confusion. Not the least of these

was the relation of the type of building to be erected to the title of the land. This question of title was the concern of the Department of the Interior, the authority with which rested the responsibility for construction of most capital works. The War Cabinet had stated clearly that capital expenditure on building construction "was to be incurred on freehold land only".⁷ The provision was a vital one, and one which the Board of Business Administration, for instance, would be emphatic in endorsing. In August 1940 the Prime Minister himself drew attention to expenditure of £250,000 on land at Wodonga, Victoria, for which the freehold had not been obtained. A rental had been arranged, but, as the Business Board pointed out, lack of proper arrangements could incur claims for compensation "the merits of which would be difficult to determine".⁸

Reasons for not complying with what would appear to be a practical policy, were somewhat confused. The delay in establishing title was not always acceptable to the urgent intentions of the Forces. As in anything, the problem could be reduced to personalities, and there were not wanting those who would contrive to have a certain location selected, even to the extent of selecting unsatisfactory sites, or of getting the particular Service Command so far committed that it was not possible to withdraw. Sandgate, Queensland, air force training school was at first to be on a site later condemned both by the Queensland Board of Business Administration committee and the local press. The site was changed. In the case of Hunter's Bay, New South Wales, on the other hand, the board questioned the navy's choice, but after investigation had to admit the suitability of the service's selection. At Victor Harbour, South Australia, the board telephoned the air force to suspend all contemplated action until the board had considered the submission providing either (a) a new establishment near Adelaide (Victor Harbour was serviced by an infrequent railway only, and was eighty miles from Adelaide), (b) additional accommodation at Somers and Bradfield (stations already established in other States), (c) provision of temporary accommodation pending the new establishment. The Chief of the Air Staff saw the board which, after full consideration, was

still unable to endorse the proposal; but in view of the importance of the time factor it proposes to seek an immediate interview with the Minister for Defence Coordination and advise him that in its opinion arrangements have proceeded so far that it would be very difficult for the government to vary them.⁹

The steps taken included serving notice on the owners of the property and advertising in the press to say that it would no longer be used for its peacetime purpose. No consideration had been given so far to the practic-

⁷ War Cabinet Minute 213, 3 Apr 1940. The principle was enunciated in connection with the erection of military hospitals in Sydney, Melbourne and Perth.

⁸ War Cabinet Minute 458. (War Cabinet Minute 653, 10 Dec 1940, reported that work on buildings at Salisbury had been in progress for several months before a request was received by the Dept of the Interior for acquisition of the area.)

⁹ Board of Business Administration, Minutes, Item 1435, 18 Oct 1940.

ability of acquiring the freehold of the property and no information was available as to the probable value of it.

This incident produced a report to the Minister of Defence Coordination that

a number of submissions . . . have been made . . . after commitments have been entered into and others so near the date when finality should be reached that the Board has not had reasonable time to obtain sufficient information to cause it to feel satisfied that the proposal should be endorsed.

The Prime Minister reprimanded the Service concerned, emphasising the question of expenditure; the type of property which was (in this case) liable to criticism; and the unnecessary lateness of the date.

In December 1940 the Board of Business Administration wrote at length about camps for the Services, setting out comparisons between army and air force accommodation in pursuance of its "perturbation" at the cost of the undertakings and the "marked divergence between the manner of presentation of proposals from the service departments". Investigations showed "that a very considerable difference exists in both type and cost of structures and engineering services for the different departments".¹ The Director of Works' views endorsed the air force practice of having the whole requirements covered by the Air Board schedule accompanying the original application; and deprecated "army practice of providing Commands with funds to construct a camp. . . . It appears that funds are not provided to cover all necessities of a camp but the amount authorised is used for the construction of essentials, and, when expended, additional funds have to be sought for other buildings and amenities or the excluded facilities are not obtained. . . . In no case was an army camp seen which could be called complete with all necessities . . .". There were primitive roads, and feeding was not standardised and varied with the wishes of the different commanding officers, so that it was not possible to design kitchens etc. to a standard. The Director of Works considered that "with more thought to economy in the layout and amended designs of buildings 15 per cent to 20 per cent of the cost of R.A.A.F. stations could be avoided without loss to efficiency . . . also that Stations should be constructed by the Department of the Interior in preference to the States as the latter show much more expensive construction than is permitted by the former".²

Setting apart the appropriateness or otherwise of questioning the degree of comfort afforded the fighting man, conflicting standards and procedures as between the Services (more particularly as between the army and the air force) produced difficulties in authorising equipment as well as camps. In October 1940 a schedule prepared by the Board of Business Administration showed R.A.A.F. equipment as £6 11s 10d per man in excess of the equipment for the A.I.F., and they observed that they did not consider

. . . sheets nor provision for maintenance of crockery and payment for laundering . . . should be a charge against public funds, observing that members of the A.I.F.,

¹ The Treasury felt impelled to comment on munitions buildings also, suggesting (War Cabinet Minute 699, 16 Jan 1941) that if they were for wartime only, consideration should be given to erecting temporary buildings. The Cabinet endorsed this view.

² Board of Business Administration, Minutes, 18 Dec 1940.

many of whom remain in Australia for lengthy periods are issued with tinware only and do not receive issues of stretchers, sheets, pillows and pillow slips nor such a convenience as a steel bin (one for two men) for the storage of clothing.³

As might be expected, it was the lack of anything which received notice, rather than the abundance; and frequently a lack produced an argument for urgent fulfilment which could cloak inappropriate and unsatisfactory procedures.

There was the incident, early in 1940, which has been recorded elsewhere, concerning unsatisfactory supplies of service clothing, in which discussion had concentrated upon the weaknesses of procedure for ordering, and the abortive suggestion that the Department of Supply should accumulate stocks. In March 1940 the Minister for Supply even suggested that perhaps winter camps for the militia should be deferred until the equipment was available. The alleged reason for the insufficiency of supplies was the lateness of demands received from the army.

A general shake-up followed, but, with the added pressures for expansion following the events overseas in the middle of 1940, the army and the Contract Board went too far the other way. The Secretary of the Department of the Army protested against the "unorthodox method adopted" by the Master-General of the Ordnance and the Contract Board in placing contracts on verbal advice for clothing and clothing materials, the estimated amount involved being £2,000,000. The view of the Board of Business Administration was that, since large quantities of previous orders remained outstanding, the action taken should have been to speed up deliveries under these; and in any case contract demands in accordance with authorised procedure could have been made. In fact, the Contract Board (in July 1940) had no facilities for policing the output of, for example, the cotton spinning and weaving industry, and having arranged by conference a manufacturing programme for each mill they "assumed that each representative looked after his own interests".⁴ There was therefore no way of ensuring priority to defence over orders for civil requirements.

The disregard of procedure was sometimes vehemently justified in the case of technical orders (and sometimes could be just as vehemently condemned). The Air Force Director-General of Supply and Production contended that

in certain cases where the purchase of technical equipment was involved the Department of Supply and the Contract Board could contribute nothing to any decision to place an order, particularly in cases where contracts could only be obtained and arranged by personal contact with special manufacturers.⁵

³ Board of Business Administration, Minutes, 1 Oct 1940, Item 1312. The board intended to be critical of air force standards, not of the army's austerity, which was adapted to the conditions of active service.

⁴ Board of Business Administration, Minutes, 3 Jul 1940. The intention of the Government, however, was clear from the beginning. On 4th September 1939 (full Cabinet Minute 174) when discussing the National Security Act, reference was made to the delay in completing contracts for supply of goods to the armed forces and it was agreed that pending introduction of the National Security Act the Minister for Supply, in collaboration with the Minister for Defence, should endeavour by negotiation to ensure priority to defence orders. The Minister for Defence was to ensure that the National Security Act provided machinery to compel priority to be given to defence orders.

⁵ Board of Business Administration, Minutes, 5 Aug 1940.

But in supporting the retention of the central purchasing organisation (the air force was for its removal) the Board of Business Administration pointed out that the Contract Board "could do most useful work on the practical side in preventing congestion of orders". Delays were inevitable, but would be greater if there were uncoordinated demands from every source on individual manufacturers.⁶

One of the chief reasons for the confusion lay in the conflict between the alleged urgency of the Services on the one hand and the plea for established procedure by the civil (especially financial) departments on the other. On the one hand the Services contended that if they were to fulfil their functions of defence, the equipment must be provided immediately and in the quantities they thought necessary; on the other, the fact that such equipment was on occasions procured without an established contract, and not always at the speed which was supposed to justify such action, meant that the civil department was left to combat, at an obvious disadvantage, the claims of the supplier not only for payment, but often for inflated payment, as well as the criticisms and complaints of those suppliers who might have been passed over in the confusion. The upset hinged, as on other occasions, on the existence or not of a contract; on the question whether or not the Commonwealth was in fact committed. And as with land transactions, as often as not even if not under a legal obligation the Government was, in fact, so far under a moral obligation that it could not, without undesirable publicity, withdraw. In any explanation, obviously, the supplier would see a particular department not as a separate entity, but as "the government". Nor were these difficulties experienced only where it was necessary to speed up an order to get the goods manufactured; urgent needs for complete items could be made the excuse for purchasing without proper procedure, since the Service might "miss out" on the chance if their purchase were delayed.

In the last quarter of 1940 there occurred one of those minor upheavals which beset administration when problems become urgent and confused, and although in the process no lasting solution emerged, what did emerge was publicity for the point of view that adherence to the established procedure was entirely justified, and some castigation of the other (Service) point of view that such procedure resulted only in administrative "bottle-necks". In two instances—telephones and switchboards—the munitions organisation sought to place an order only to find the selected manufacturers engaged in fulfilling Service orders which had not been authorised. Apart from the upset to balanced production, there was uncertainty about the cost of the switchboards, which, although understood to be at a fixed price, according to the manufacturers were to be on a "cost-plus" basis; an uncertainty which the existence of no authorised contract made it very difficult to resolve. Folding boats were needed by the army and direct negotiations with the manufacturers were begun. Because delivery was urgent authorised procedure was disregarded and the assurance by

⁶ Compare the wisdom of the later Machine Tools Directorate which refused access to its tool rooms by individual contractors.

another contractor of speedy manufacture was submitted as a good reason for passing over the first firm. But the selected manufacturer could not maintain his delivery dates because plywood supplies were difficult and had to come from New South Wales. It was the knowledge of this possible delay which had prevented the original contractor from giving quick delivery dates. In this instance extra cost had therefore been incurred without the advantage of the quick delivery promised. The most notable instance, however, was that of the purchase of cycles "ordered direct by the Department of the Army without contract demand or reference to the Contract Board". This reached Cabinet level where a decision was made that the action "did not constitute a contract between the Commonwealth and the supplier".⁷ At the same time the Cabinet considered web equipment and gaiters and found that "proper enquiry had not been made regarding the possibility of supply from England", while with surgical gauze the objection was "to the proposed purchase through local agents" when, by purchasing through the High Commissioner in England a considerable sum would have been saved.⁸

In the enquiries and recriminations some heads were lost and the authority of the Contract Board and of watchdogs like the Business Board was reaffirmed.

In 1939 despite earlier flirting with projects for local production of complete motor vehicles Australia did not have an industry capable of attempting the production of the motor vehicles required by the Services. Two companies, General Motors-Holden's in South Australia and the Ford Company at Geelong, Victoria, imported engines and chassis for completion in Australia and were engaged in the manufacture of some components and spare parts. This situation explained why early efforts to secure motor transport concentrated on Ford and Chevrolet types and why these two companies were virtually the only local suppliers.

Initial requirements were modest: 2,860 vehicles at an estimated cost of £1,085,000 for A.M.F. training and 784 at a cost of £438,000 for the 6th Division A.I.F. But the latter were for training only; war establishment would require 2,750. And, as the A.I.F. was enlarged, estimates of needs grew, being valued and adjusted in confusing fashion as army establishment plans were changed and ideas of possible campaign commitments emerged. The primary need came to be vehicles for the A.I.F. and the great uncertainty the source of supply. In November 1939 the War Office was requesting that "Dominions should provide their own transport for their expeditionary forces", a request which, directly, meant that the War

⁷ War Cabinet Minute 520.

⁸ In July 1940 (Item 947, 25th) the Board of Business Administration discussed the many instances of purchases through local agents instead of the High Commissioner. It had been asserted that difficulty was encountered in obtaining assurances from the High Commissioner that goods could be supplied, and also in obtaining delivery where orders had been accepted; on the other hand local agents had offered to supply and, in fact, had made early delivery of items in question. The board suggested that the reason lay in "no control being exercised in Great Britain over prices charged by manufacturers for goods exported". The home market was controlled, and in consequence manufacturers had no desire to supply the High Commissioner. In consequence the Commonwealth was "forced to pay the manufacturers' own price . . . instead of being able to obtain" items under War Office contracts.

Office could not agree to arrange supply from British sources nor allocate vehicles from its own pools in the United Kingdom or Middle East. Indirectly, however, it pointed to the fact that Australia could not hope to secure vehicles—other than motor cycles—from Britain. The solution had to be found by purchases of new vehicles, mainly by orders placed with the local Ford and General Motors companies, supplemented from August 1940 by some purchases of secondhand vehicles. The latter had been rejected in October 1939, and now were limited to open market buying without impressment.

Acquiring the vehicles was only part of the problem. Those for use in the Middle East required shipping, and that at a season when export cargoes were heavy, and in particular when Australian shipping policy was concentrating upon finding space for wheat. There were conflicting reports on the availability of shipping for vehicles to the Middle East, although it proved possible in fact to handle what vehicles were obtained. The slowness with which vehicles were acquired was partly the result of the brake applied by the Treasury, which in February 1940 was urging reduction of orders "pending further consideration of the sphere in which 6th Division is to operate and if mechanical transport is to accompany it overseas".⁹ Further restraint was applied by the Board of Business Administration which the same month was suggesting that orders be related to probable space available for shipping to the Middle East. In part the slow progress reflected the unwillingness with which the Government accepted British insistence that the A.I.F. must not depend upon British transport in the Middle East.

These uncertainties made planning by the local companies extremely difficult, and their complaints reinforced the desire of the Services to find more effective if less orthodox ways to secure vehicles. The case of motor cycles has already been cited. More complicated and more serious were the arrangements evolved for the supply of vehicles by the two local companies.

The centre of the trouble in this case was the absence of definite contracts for orders which were of very considerable size. Pre-war, vehicles were supplied to the Commonwealth under a simple form of contract providing for a price free of customs duty and a substantial discount on list prices. Purchases were small. After the outbreak of war orders were placed on a large scale, and the Minister for Supply initiated negotiations for more favourable terms. These were agreed to, with application to all orders since the outbreak of war. But these negotiations were informal—some telephone conversations for instance were not noted at the departmental end—and no arrangement was made for drawing up formal agreements. Doubt as to the costs of producing vehicles, many of which required special bodies not covered by list prices, prompted requests for information from the companies and proposals for checking of costs. The companies for their part reported that experience and increasing output were producing economies and volunteered rebates representing a

⁹ War Cabinet Minute 73.

share in the savings. A board of inquiry brought out the disturbing fact of agreements of which some terms were not recorded departmentally and of errors by departmental cost accountants; it urged the application of target price principles while the Contract Board (successfully) preferred maximum price contracts.

Further complexity was produced by the administrative structure. Division of the departments of Supply and Munitions in June 1940 still left uncertainty as to the fields in which they were to operate. The central function of Munitions was clear, and broadly "other supplies" were the field of Supply. But the specific delimitation of fields involved some overlap and scope for debate—it reached Cabinet level in October—as to what were the provinces of the two departments.¹ Timber control, for instance, went to Munitions while tinplate remained with Supply. Munitions and Supply were not alone in being sensitive as to fields of power. Departments were still eager to appropriate functions and powers as the means of building up their own importance, and some at least of the confusion and conflict with which consuming departments faced industry was inseparable from the empire-building of ambitious personalities.

All these various incidents were distressing in themselves, and embarrassing to the Government. But they are important in a wider context. In the first months of war it was possible to proceed on the old peacetime basis on the assumption that the ordinary market factors were operating. It could be assumed that government demands on any one industry were a small part of the total demand, and that total demands were well within the capacity of industry. In these episodes were forewarnings that the situation was changing. For many industries the Government was becoming the only purchaser, or at least the dominant one, and there was competition among suppliers for government contracts. That competition was reinforced by the realisation that for the future there could be many advantages in receiving government contracts. They were not unprofitable; they carried privileges as to labour supply and access to materials which, though still slight, would obviously become vital. On the other hand available supplies of skilled labour and of materials were becoming less, which complicated competition among suppliers while it impelled the Services to irregular action to anticipate each other in satisfying their own particular needs. And over all hung the shadow, scarcely yet perceived, of a civil consumption demand, inflated by wartime incomes, as yet virtually free of direct controls and little restricted by import cuts and wartime budgets; here was the distant threat of competition for supplies with the Services. In short, as 1940 drew to its close, it was being repeatedly demonstrated that a term must be put to the policy of seeking supplies on a commercial basis from a private industry still little controlled and a market still substantially free.

¹ Brigadier C. S. Steele, Chief Engineer, 1 Aust Corps, in September noted in his diary "there appeared to be some doubt in the minds of the Board [of Business Administration] as to the powers of the Department of Munitions, but it would appear from Rule 111 of the National Security Act that if lettuces are declared by the Department of Munitions to be munitions, munitions they become".

Price Control.

In the early stages of the war the Prices Commissioner was generally content to leave to government departments control of the prices at which they purchased supplies and in particular to concede to the Department of Supply, and, after its separation in 1940, to Munitions, the right to determine the prices which they would pay. In part this was because of the special character of the goods being purchased, many of them not offered on the civilian market at all, and in part because it was a reasonable assumption that a government purchasing agency would be assiduous in seeking the lowest possible prices and as a large buyer favourably placed to bargain. Moreover, for reasons to be discussed later, many of these supply contracts were not at fixed prices but on the basis of cost plus an allowance for profit. This basis meant that the primary scrutiny was over the accuracy and legitimacy of claims of cost; while the principle of cost plus a reasonable profit was broadly the one followed at this stage by the Prices Commissioner. From the beginning, by administrative action, it was the practice to provide in contracts negotiated by the Contract Board an overriding clause that the price should not exceed the maximum fixed by the Prices Commissioner for similar goods sold on the civilian market.² This was not at this stage a serious restriction, since prices in government contracts were likely to be below those in the civilian market for comparable goods, and in any case over a wide range of supplies purchased by the Government there were no comparable civilian goods.

Supplementing the provision in contracts were more important arrangements for liaison between the Supply Department, and later the Munitions Department, and the Prices Branch. At one stage the branch had ambitions of taking over the cost investigation staff of the Contract Board but had to be content with the appointment of liaison officers whose task was to seek consistency between the prices policy of the department and the prices determinations of the commissioner. The Contract Board frequently sought the aid of the commissioner in investigations of costs under government contracts, the first action being in December 1939 and concerning boots. This arrangement was a somewhat uneasy one, partly because the Supply Department on occasions preferred to use its own investigators or those of the Department of Munitions. This led at times to more than one investigation of the same case. Moreover there were differences between the Department of Munitions and the Prices Commissioner on the principles of costing. The Munitions Department followed substantially the recommendations of the Advisory Panel of Accountants which in 1940 produced the document on principles of costing for government accounts, known to industry from the colour of the paper as the "Yellow Peril".³ On some points the Department's Director of Finance adopted interpreta-

² In 1942 this provision was to be given full legal force by regulation. Statutory Rules 1942 No. 164 National Security (Supply of Goods) Regulations, 8 Apr.

³ As adopted this document was a revision by the Director of Finance of the Department of Munitions, who had been chairman of the Panel before becoming Director. His revision entailed some changes which other members of the Panel thought undesirable.

tions which differed from those of the Prices Commissioner, differences which persisted in some degree throughout the war.

There were further sources of conflict between government purchasing departments and the Prices Commissioner of greater significance. The Contract Board, in particular, naturally wanted to secure the lowest possible price and the Prices Commissioner considered that it frequently pursued this objective with disregard of the effect on industry as a whole, and the repercussions on the efficiency of price control in the civilian sector. This was especially a problem of the allocation of overhead costs. Particularly in the early stages of the war suppliers were keen to secure government contracts, and in the face of the Contract Board's pursuit of low prices displayed a tendency to quote, for government contracts, prices which made inadequate provision for overhead costs—even on occasions it was said might involve losses—and to make good the deficiency with high prices in the civilian market. So long as the Prices Commissioner gave his attention to the prices of individual goods on the principle of permitting a price which covered cost plus a reasonable profit, the result could be, and often was, a disguised subsidy by civilian consumers to government purchases without affecting the overall profits of the enterprise. The Prices Commissioner considered that where comparable goods were supplied to departments and to the civilian market the departments should abandon their pressure for low prices and accept the prices fixed by the commissioner, a view which they were unwilling to accept. This was a source of continuing friction between the Contract Board and the Prices Branch, which sought with only limited success to make its view effective by increasingly basing its price determinations for the civilian market on an overall review of the sales of a business, including its sales to the Government. In the process it refused to recognise the legitimacy of charging an undue proportion of overhead costs to the civilian sector. On the other hand, with some goods, supplies of which were short, the demand of the purchasing departments even had the effect of leaving the civilian market unnecessarily depleted. This could happen even when prices to the government were lower than those in the civilian market. In part this was a question of the size of government purchases, which, in accordance with ordinary business practice, made sale at a favourable price still very profitable; and in part it represented the influence, in the early years of the war, of the desire of suppliers to establish themselves with government departments with an eye to repeated future orders.

Supply's Relations with Other Sections of the War Economy.

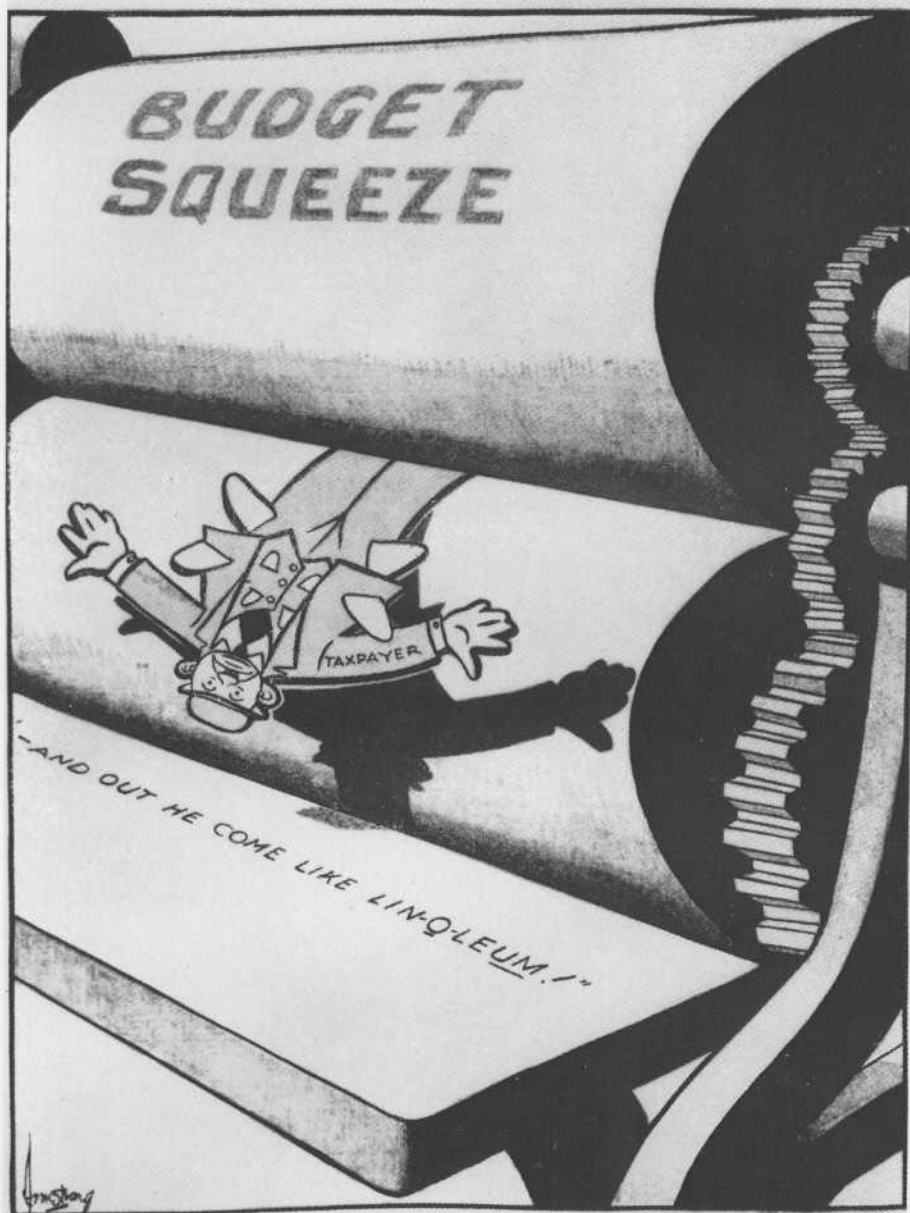
So far, supply, whether of manufactured or raw materials, has been considered in its narrowest meaning. It is necessary to enlarge this view. To begin with there were inherent elements of conflict: the personality of people within and without the department; the nature of the problem—its ramifications which in the end left no part of the economy untouched. From the beginning the problem was seen in its widest context by some officers of the Supply Department; their awareness of the interrelations,

"ESCAPE FROM SING SING!"



Armstrong in Argus (Melbourne), 9 May 1941.

"UNDER THE ROLLER HE WENT, B'GUM—"



Armstrong in Argus (Melbourne), 23 Nov 1940.

of the fact that finance, import licensing, possible rationing, and above all of the need to consider civil requirements, were all part of the supply problem, was reassuring. But it is clear that here perhaps more than anywhere else administrative procedure in existence lacked the ability to coordinate, which again was more clearly needed here than anywhere else. The plans which had occupied, for example, the National Planning Conference before the war, though comprehensive on paper, had been translated into procedure for too short a period (some part of the plans had not been translated at all) to permit them to cope with pressure from personalities and events.

Moreover there is reason to feel, looking back on the supply organisation which coped with the first months of war, that too great a load was given to the Department of Supply. And paradoxically just because they appreciated the far-reaching nature of the supply problem, officers of the department sought a role for Supply in every major section including finance, import licensing, and export. Bit by bit the load was lightened by the creation of other authorities to which were transferred sections of the first confusion. They gave those sections their undivided attention, but to begin with the Supply Department struggled with the lot.

Beyond the department were not only the special interests of contractors and private enterprise generally, but the special interests of other departments. Ideally the supply of goods to the Government was to be at an equitable price, yielding to the supplier a reasonable profit, the goods to be in quantities which fulfilled the needs of the Government without undue waste in use. But as has been seen with boots, the department had perforce to stand as the guardian against exploitation by private enterprise, just as within the administration it had to stand as scapegoat if the supplies for which the Services clamoured were not forthcoming. Nor were attempts to exploit necessarily as flagrant as in the supply of boots. Certain problems were common to the supply of any item from local manufacture; and were magnified in the case of major needs such as blankets, cloth, cotton goods etc. These problems were not easily solved, if indeed they ever were, in the confused atmosphere of changing wartime policy, and of general uncertainty about the future needs of that war. Chief among them was the continuity of demand which it was considered essential to maintain, a problem which recurred in connection with munitions production also. And it seems fair to observe that some suppliers used this need to keep their particular plant or machinery in production as an excuse to stampede either department or Service into placing further orders.

Other departments were aware of the difficulties of Supply and of interlocking policies (for example capital issues as a means of restricting the use of commodities needed for essential production), but often the method adopted was not to place such decisions within the Supply Department, but to seek from Supply information about Supply's needs, and for the decision to be made elsewhere. At the lowest level this meant considerable routine clerking for Supply; at the highest it meant time spent in persuading those making decisions outside the department. The integra-

tion of capital issues policy with the needs of the Department of Supply was commendable; but when the Treasury asked Supply for "evidence of shortage of labour and/or materials" the department's representative replied with reason

I think your idea was that we should give you a comprehensive list of all goods in short supply. This is a very large order, even if we confined it to "essential" goods. Do you want such comprehensive information?

I don't think the Treasury realises what is being asked for in these matters. The Minister suggested some time ago that we might supply you with information and officers at large. We cannot transfer the Department to Canberra. . . .

As far as I can see the only way in which we can help effectively is to advise on specific commodities. However, perhaps you would like to have a long list from which to select those commodities in which you or the Capital Issues Committee are really interested. . . .

Our information is so extensive that we cannot get it into this building. . . .

Moreover, while the executive of the department coped with the integration of supply policy with the general policy of the Government, their own particular difficulties waited on the expression of that general policy. As has been seen earlier, attempts to get the Government to purchase strategic stocks on its own behalf had failed—partly because of finance, partly because the items involved were not strictly applicable to defence in the narrower sense. (Later, stocks of raw materials for munitions were purchased.) Within the Supply Department efforts to persuade private enterprise to stockpile were successful to the point where such stockpiling grew beyond the foreseeable needs of the purchaser. Here he either sought some protection against a later fall in price (at the beginning the length of the war was seriously discussed as a matter of months) or protection against the foreign material which assuredly would replace, at cheaper prices, the local production stimulated—and involving new capital outlay.

There was also a lesser problem of liaison between private enterprise and the department. Investigation of an industry—or particular proposal—was usually necessary, and called for well trained and, preferably, senior staff, which the department had had no time to recruit in sufficient numbers before the war; and after the outbreak of war abnormal demands by other departments for staff of similar quality made the task even more difficult. Negotiations with a large chemical organisation, for example, drew from their chief executive the protest that the industry had international ramifications and "cannot be run on parochial lines" nor left to the attention of a junior investigating officer.

Inducements to undertake War Production.

Discussion of policy towards new enterprises mounted in February and March 1940, at a time when, it will be remembered, general economic and financial policy was groping for expression through such academic means as the seminar held in the Economic Cabinet. The problem was being considered in several places: the Department of Trade and Customs (with which the Tariff Board was associated) had always been the investi-

gating authority for "new" industries; the Department of Supply and Development had been active in promoting new production of goods made scarce by war; and the Treasury had been seeking first to direct money into its war loans and as a consequence had had to look at the problem of restricting civilian investment. This meant however that financial policy which cut across the activities of the Departments of Trade and Customs and of Supply must exempt new productive capacity designed to produce supplies for war.

Typical of these new enterprises was flax, increased production of which could not be achieved without government assistance. What production was "essential and in need of assistance" must be determined, but by whom? The usual obstacles were present: the temporary nature of the wartime demand and the capital risk; the facts that there was no security against post-war competition, and Australian policy could not be forecast; that competition in such production was often impossible; and that "every possible suggestion appeared to have political objections". For example the policy on price control when prices fell, sponsored by the Seaborne Trade Committee and accepted by the Ministers for Supply and for Trade and Customs, though presented to the full Cabinet had not been decided. The answer must wait until the Cabinet framed general economic policy; and then the suggested form of administrative supervision was the advisory panel of business men, as already functioning in such bodies as the Advisory Panel on Industrial Organisation or the Accountancy Panel.

Without enthusiasm the Department of Supply offered the following suggestions:

- (a) Production when selected for assistance to be the subject of guaranteed sale or equivalent compensation for (say) three years at prices fixed on a cost-plus basis for quantities to be determined in advance from time to time.
- (b) Amortisation of part of the capital to be provided for in the price, relating to the quantities guaranteed.
- (c) Control, including selection of the product and the producers, to be delegated by Parliament to a wartime authority, having a status equal to that of the Commonwealth Bank (free from the political disabilities of Minister or Cabinet) with power to borrow and to lend. We can scarcely have risky and assisted wartime enterprises without paying heavily for them. . . .

Ultimately, as mentioned earlier, the loss of European sources of supply and the consequent British interest in augmenting local production solved the flax problem by assuring a market for the product, and so removing the financial risk of uncertainty of return on capital.

The willingness of manufacturers to hold increased cotton stocks also awaited a decision on this policy of price control. Local growers, all in Queensland, produced less than one-third of Australia's normal needs. The Supply Department had been interested in cotton supplies since September 1939 and, after a discussion between spinners and the chairman of the Trade and Customs Cotton Supplies Committee, "spinners had been prepared to finance an increased holding of stocks equal to about eight months requirements" (the stock position in the first month of war

had revealed only two and a half months supply of Australian requirements) "providing the Government declared that it would continue a policy of price control and import licensing for a period of six months from the end of the war to enable stocks on hand to be consumed as manufactured goods". The Minister for Supply's submission to the Economic Cabinet declared "some protection is desired so that spinners in Australia have no fear of a sudden fall in prices of raw cotton and of manufactured goods at the end of the war".⁴

The policy on price control was set out in a memorandum to which the full Cabinet gave no decision when it was circulated on 4th December; the Economic Cabinet, however, on 1st March 1940 would not approve the memorandum in its existing form (they did not favour fixing minimum prices) but did accept the suggestion of the Director of Economic Coordination, that "requirements could be met without the necessity for fixing minimum prices by providing that import licensing control should continue for a suitable period after the war, thus enabling imports to be restricted while existing stocks were cleared. Importers seeking licences should be required and authorised to purchase from existing stocks of other traders. Concurrently with this, price control measures should be taken so that a maximum price could be fixed to prevent holders of stock overcharging purchasers".

In putting this to the Prime Minister for his approval, the Director added that he thought retention of import control and price-fixing powers would make fixing of minimum prices unnecessary, importers being instructed to purchase existing stocks. "It is not suggested that holders of stocks should be compelled to sell, but if outside prices were falling and the internal control was for a limited period only, such holders would probably be glad to dispose of existing stocks as quickly as possible."

The nature and extent of government financial aid to industry, however, was to continue to be a problem right through the war years; and as the war became more grave and the need for production more urgent, the Government could less afford to question the nature or amount of that financial aid, although later the inception of controls provided some assurances that such government assistance was not to become a source of cheap finance for new industrial development. Assistance to industry was to be ever more extensive once the new munitions organisation began to function.

Aid to some suppliers of munitions in the form of government contributions to capital expenditure appeared from the very beginning, and as the range and scale of war production grew, took various forms and became increasingly widespread. With flax, as has been seen, the essential point was a guaranteed price and market, while aid for manufacturers of gas producers took the form of guarantee against loss. Financial aid, however, was naturally most extensively given to those producers who were engaged in satisfying the demands of the Contract Board and especially the requirements of the Director-General of Munitions.

⁴ Economic Cabinet Agendum 24/40, 27 Feb 1940.

The arrangements for the early annexes had provided that the land be leased to the Commonwealth on which, generally, the Government provided the buildings, and mostly supplied plant and equipment. Sometimes the private firms supplied both buildings and equipment. For these original annexes it was provided that on the conclusion of the contracts for them (initially for ten years renewable at the option of the Government) the buildings and equipment should be taken over by the contractor at a valuation, or removed by the Government, except in the case of State railway workshops where the railways were to take over at a valuation. The Commonwealth was not happy with arrangements which provided for buildings on land to which it did not have the title, but in most instances it was impracticable to separate the relevant land from that which a contractor wished to retain, because annexes were usually, of necessity, close to the contractor's existing works. By December 1940 there were seventy-four annexes on which total capital expenditure by the Department of Munitions, and the earlier Department of Supply, of £3,080,000 had been approved. By August 1941 these had grown to eighty-one, involving the Commonwealth in a total capital expenditure of £5,270,000. Of this last amount only £22,000 was for land taken over for annexes and £221,000 for cash loans to contractors. The two important items were buildings £1,060,000 and machinery and plant £3,890,000.

It should be understood that the policy upon which this subsidy to commercial industry was developed contemplated financial assistance only where the manufacturing requirement was beyond the resources of the parent firm, and a specific type of munitions having no commercial counterpart or no potential commercial market in Australia was to be produced. This policy of aid in the establishment of annexes was extended as occasion arose to other contractors and to supplies other than munitions. Not all this aid took the form of buildings and their equipment. On occasions materials to be used in meeting the Government order were supplied, especially by the Department of Munitions. There might be cash advances to provide working capital, or alternatively guarantee of advances by a bank. Plant and machinery might be lent subject to a rental charge, while arrangements for progress payments could be made so as to constitute in fact a partial advance of working capital. Thus Boards of Area Management of the Department of Munitions were encouraged to be liberal with progress payments to this end; by July 1941 this policy was systematised in written arrangements for cash advances to contractors on an imprest system under which contractors could receive fortnightly reimbursement of their outlay in advance of final check of their costs.

In all its various forms this type of aid had its origin in the need to induce Australian industry to undertake the often substantial outlays needed to meet war demands, outlays which would frequently be embodied in equipment of little value for production for the civilian market or which were required to finance production on a scale beyond the existing resources of producers. There were obvious risks in the policy. It was often difficult, for example, to prevent what purported to be a loan becom-

ing in effect a subsidy, most obviously in the case of buildings erected upon the contractor's own land, where the right of the Commonwealth ultimately to remove the building could easily prove a very weak weapon in any bargaining with the contractor as to valuation. There was a great risk that unwittingly the Government might be giving one contractor a substantial advantage as against a competitor merely because he happened to secure a particular contract. Again, the needs of war production might make it necessary to rescue from difficulties of its own creating a firm which happened to possess equipment and organisation which should not, in wartime, be dispersed; several concerns, for instance, were in this way saved from bankruptcy so that munitions production should be developed.

It can hardly be claimed that the efforts of the Munitions and other departments to check all the undesirable features arising from aid under these conditions were completely successful. But, on the other hand, the simple fact remained that the supplies had to be procured and there was no other practicable way of ensuring that they would be.

"Cost-Plus".

A convenient point at which to review the financial arrangements in contracts for war supplies, as they developed in the early months of the war, is August 1940, at which time the Director of Finance in the newly separated Department of Munitions, Mr Nixon,⁵ was seeking to codify instructions and practice. It would, in any case, be tedious to trace in detail the evolution of contract terms. Before the war the normal practice was to seek quotations by open tender, supplemented by special action where it was believed that competition between the suppliers was limited by formal or tacit agreements or otherwise. In such cases in addition to public invitations to tender, firms likely to be capable of supplying were specially notified. Quotations were checked against prices in the civilian market and overseas, and if identical quotations were received from different suppliers the one who had been the most recent satisfactory contractor received the new order. With the great expansion of contracts immediately before and after the outbreak of war, this relatively simple procedure was no longer effective. Not only was it increasingly difficult to get competitive tenders, but the scale of orders meant that it was necessary to call upon a wide range of suppliers, many of whom were unfamiliar with the work involved, had to make substantial expansions to their equipment and their working capital, and could therefore tender only on ideas of probable cost which were largely guesses. Consequently the field in which it was possible to negotiate fixed prices for contracts was small, and in general limited to those cases where the quantity ordered was of no great size, or competition was absent; and as it became clear that war would produce unpredictable increases in cost during the production period, the willingness of suppliers to give firm quotations on a fixed price basis decreased. Inevitably, therefore, the most common type of contract

⁵ Sir Edwin Nixon, CMG. Chartered Acct and Company director. Dir of Finance, Dept of Munitions 1940-45. B. Jersey, Channel Islands, 31 Mar 1876.

as negotiated by the Contract Board and, later, by the Department of Munitions, involved in some form or other the principle of paying actual cost, as ascertained after the event, plus profit. There was a good deal of variation among the types of contract which came to be used. With the annexes the Principal Supply Officers' Committee as early as 1938, after seeking the advice of the Industrial Advisory Panel, had adopted the broad principle of paying at a rate which yielded 4 per cent profit on the total cost. This principle came to be generally adopted as the annexes went into wartime operation, despite the fact that the 1938 proposals were based on the assumption that the target price principle, discussed below, would also be adopted as a check on excessive costs, whereas, in fact, target price contracts were very few. It may be noted here that this was the origin of the idea of 4 per cent profit as a fair wartime rate, which continued to recur in wartime discussions of profit control. It was derived from pre-war experience of work on a one-shift basis, and under wartime conditions, where three shifts were common, it could yield a return on capital at a rate which had never been contemplated. In contracts other than those with annexes there was much more variation in the rate of profit provided, but a common basis was to allow $7\frac{1}{2}$ per cent on labour and overhead costs, plus $2\frac{1}{2}$ per cent on raw materials and payments to sub-contractors. These rates, too, were a rough generalisation of what before the war were regarded as normal earnings in the engineering trade, and, with the much more intensive work and larger turnover of the war period, could yield very handsome rates on capital invested. The Director of Finance, in a circular instruction of August 1940, tried to set out the various circumstances which should be taken into account in determining appropriate rates, but the principal effect of the wide variety of circumstances which he had felt necessary to describe was to make it even more uncertain what might be regarded as a reasonable rate.

These questions of the rate of profit to be allowed were only directly relevant to that form of contract which provided simply for a price covering ascertained cost plus a percentage for profit, but this was in practice much the most common form of contract. Another type used was that which provided for the payment of cost plus a fixed fee. A third type combined the principle of cost plus a profit percentage with that of a maximum price. Under this arrangement, if the contractor's actual cost plus the agreed profit fell short of the maximum price, he received the lower figure, while if his costs plus profit exceeded the agreed maximum he received only that maximum, the clear purpose being to provide an incentive to efficiency and economy. This principle was carried much further in target price contracts where a target price was agreed upon, often after a trial order on a cost plus percentage basis designed to give some lead as to costs. The contractor could not receive more than the target price, while on the other hand any economies which he succeeded in achieving were shared between him and the Government, the contractor's share rising (scales varied very widely in practice) as the percentage of saving rose. Target price contracts,

which were still in principle substantially cost plus contracts, were comparatively little used although the pre-war planning of the Principal Supply Officers' Committee had contemplated that at an early stage, as contractors obtained some experience of actual costs and problems of production in new fields, this would become the typical form of contract.

In all its various forms the cost-plus contract raised serious problems. Apart from the question of determining what might be regarded as a fair or reasonable profit, all these contracts hinged upon the meaning of cost and the problems of efficient production at the lowest possible cost. It was not until September 1940 that it was possible to lay down clear-cut principles for costing in cost-plus contracts. Cost claims by contractors had to be checked, and this raised acute problems, never fully solved throughout the war, of securing efficient investigating staff adequately trained in cost accounting, a field in which Australian accounting training had in any case been deficient. For the most part staff had to be recruited from the business world and, after a short time in what was known in the Department of Supply as the "red tape school" to give them some introduction to departmental practice and policy, employed in checking costs. The inability to get sufficient staff led to various devices, for example provisions by which the contractor's own auditor might be employed for the purpose by the Commonwealth, while the need to employ accountants with very limited experience led to many incomplete and inaccurate investigations and disputes with contractors.

More important than these machinery considerations was the effect of the cost-plus principle on efficiency. In the simplest but most common case of payment of cost plus a percentage of profit, the contractor's incentive to scrutinise cost and seek maximum efficiency was weakened by the apparent guarantee that his actual costs would in any case be covered, and by the fact that inflation of costs would automatically increase his profits. The situation was not in reality quite as bad as this since at least the more obvious excesses could be detected and challenged, a procedure which was given formal status in the "Yellow Peril" which explicitly provided for the disallowance of various excessive items of cost. Nevertheless the range within which costs could be inflated either deliberately or by mere neglect, was very great and accounted for the widespread critical attitude, especially among the Labour Opposition in Parliament, and trade unions, to the cost-plus principle. Criticism was, in practice, tempered by the fact that the prevalence of cost-plus contracts made contractors much more willing to agree to wage increases and to payments of more than award rates of pay, despite the attitude of the Prices Commissioner to the rapid increase in consent awards, and the provision in the "Yellow Peril" that payment above award rates might not be allowed as costs. In any case inefficiency might take other forms than mere acquiescence in higher monetary payments, and the incentive to efficiency was a great deal weakened by cost-plus. As sub-contracting became more and more widespread this factor increased because the accounts of sub-contractors were not themselves subject to cost investigation, and the

power under the "Yellow Peril" to disallow excessive payments to sub-contractors was no great safeguard.

Under the contract which provided for cost plus a fixed fee there was perhaps slightly less risk of inefficiency and inflated costs, but only slightly less. Maximum price and target price contracts did provide substantially more safeguard but they were still open to criticism. The target price, for example, meant that the contractor would naturally seek the setting of a high target mainly because the higher it was the less was the risk he took that his actual costs would eat into his expected profits, and to a lesser extent because the higher the target the bigger the savings, in which he shared, which he might hope to make. Nevertheless in the circumstances of the time there was no escape from extensive reliance on cost-plus. The central problem was that of inducing supply from industries which either had never produced the type of thing required before, or had never produced on such a scale. It would have been unrealistic to expect suppliers to take the very considerable risks that would have been involved in any type of contract which meant in one form or another committing themselves to firm estimates of costs in advance of production.

CHAPTER 9

THE DRIVE FOR GREATER PRODUCTION

THE general financial considerations which, in the early months of war, stipulated that a tight rein should be kept on authorisations for defence, disappeared in the light of oversea events in the middle of 1940; just as narrower financial considerations about aid to industry also disappeared in the urgent call for greater production at that time. Nowhere were these changes more dramatically instituted than in munitions. Not only did this very vigorous member of the Department of Supply achieve independence, but it continued to grow, indulged and unchecked, until a review of strategy in 1943 demanded that emphasis be switched from expanding the production of warlike equipment to increasing the production of food.

On 22nd May 1940 the Prime Minister announced the appointment of Mr Essington Lewis as Director-General of Munitions; on 11th June the Department of Munitions was established.

Within the administration the Prime Minister's statements indicated clearly the overriding priority which was to be given to munitions; outside the administration his announcement, reinforced by the weight of industrial personnel and power which were to implement his plans, not only reassured those traders and manufacturers already involved in munitions orders that they were wise to be involved, but awakened in others the conviction that here were opportunities which should not be missed. Within the administration the new department inherited the experienced staff who had been part of the earlier Defence Department before it became (or part of it) Supply and Development, while outside the new Director-General collected his handful of "captains" from the major manufacturing interests of the Commonwealth.

THE DEPARTMENT OF MUNITIONS

The administrative plan of the new department was simple enough. It involved splitting the organisation of munitions manufacture into eight main sections which were:

Directorate	Director
Explosives Supply	Mr T. Donaldson ¹
Gun Ammunition Production	Mr W. J. Smith ²
Ordnance Production	Mr L. J. Hartnett ³
Aircraft Production	Mr H. W. Clapp

¹ T. Donaldson. Tech Consultant to I.C.I. of Aust and N.Z. Ltd and alternate member of Bd from 1938; Dir of Explosives Supply, Dept of Munitions 1940-44. B. Stevenston, Scotland, 14 May 1877. Died 24 Jan 1951.

² W. J. Smith. Manag Dir, Aust Consolidated Industries Ltd; Dir of Gun Ammunition, Dept of Munitions 1940-42. B. London, 28 May 1882.

³ L. J. Hartnett, CBE. (RN Air Service and RFC 1917-19.) Manag Dir, General Motors-Holden's Ltd. 1934-47; Dir Ordnance Production, Dept of Munitions 1940-45. B. Woking, Surrey, England, 26 May 1898.

Machine Tools and Gauges . . .	Colonel F. G. Thorpe ⁴
Materials Supply	Sir Colin Fraser ⁵
Finance	Mr E. V. Nixon
Labour Supply and Regulation . .	Mr J. B. Chifley

To overcome the problems of State and central office relations, and, more practically, to provide local information and liaison with the manufacturers and traders, Boards of Area Management were set up in each State, again with notable figures as chairmen:

New South Wales	Sir Philip Goldfinch ⁶
Victoria	Sir Alexander Stewart ⁷
Queensland	Colonel D. E. Evans ⁸
South Australia	Mr F. T. Perry ⁹
Western Australia	Mr R. O. Law ¹
Tasmania	Mr H. B. Bennett ²

The traditional principle—that no manufacturer other than the government munitions factories should be allowed to make a complete item of equipment—was preserved; although, as will be seen, the major contractors in ordnance production were responsible for the assembly of some complete items. Each section developed manufacture under a system best suited to its purpose, and in consequence no two production directorates followed identical procedure. (Each was, of course, influenced in its procedure by the arrangements for manufacture which had been made before the reorganisation.) Sections like Machine Tools and Gauges and Explosives Supply remained independent of the Boards of Area Management, the one because its products held a special position in manufacture throughout the Commonwealth, and within the organisation itself there existed competing demands for its products; the other because, once its major manufacturing capacity was established, such capacity would pass to the Commonwealth to be administered as government factories.

Explosives Supply.

The processes of explosives manufacture were not only the manufacture and storage of suitable types of explosives, but also the filling of the

⁴ Sir Fred Thorpe, MC. (1st AIF: Fld Engs 1915-19.) Dir, McPhersons Ltd and Associated Machine Tools Aust Pty Ltd; Dir Machine Tools and Gauges, Dept of Munitions 1940-45. B. Macorna, Vic, 25 Dec 1893.

⁵ Sir Colin Fraser. Dir, Broken Hill Mining Coys; Dir of Materials Supply, Dept of Munitions 1940-44. B. Coromandel, N.Z., 14 May 1875. Died 11 Mar 1944.

⁶ Sir Philip Goldfinch, KBE. Gen Mangr, Colonial Sugar Refining Co 1928-43. Chmn NSW Bd of Area Mangt, Dept of Munitions 1940-43. B. Gosport, Hampshire, England, 13 Apr 1884. Died 7 Apr 1943.

⁷ Sir Alexander Stewart. Chmn Dunlop Rubber Co Aust Ltd. Chrmn Vic Bd of Area Mangt, Dept of Munitions 1940-45. B. Wick, Caithness, Scotland, 1877.

⁸ D. E. Evans, DSO, VD. (1st AIF: Engrs, 1914-17.) Chmn, Dir Evans Deakin & Co. Ltd, Chmn Qld Bd of Area Mangt, Dept of Munitions 1940-41. B. Geelong, Vic, 8 May 1885. Died 1 Dec 1951.

⁹ Hon F. T. Perry, MLC, Chmn and Presdt Metal Industries Assn of SA 1940-48. Chmn SA Bd of Area Mangt, Dept of Munitions 1940-45. B. Gawler, SA, 4 Feb 1887.

¹ R. O. Law, Gen Mangr Metropolitan Brick Co Ltd 1940-47. Chmn WA Bd of Area Mangt 1940-43. B. Ballarat, Vic, 20 Sep 1867. Died 22 Sep 1947.

² H. B. Bennett, ISO, MBE, ED. (1st AIF: Capt 51 Bn 1916-18.) Gen Mangr Tas Govt Ryis 1939-44. Dir of Industrial Develop Tas, 1944-54; Chmn Tas Bd of Area Mangt, Dept of Munitions 1940-45. B. Mt Egerton, Vic, 24 May 1889.

empty ammunition components. In addition to extending the Maribyrnong government factory, which dated from 1909, under the 1937-38 programme an explosives production annexe was erected at the Imperial Chemical Industries' plant at Deer Park, Victoria. It was as an addition to this that the carbamate factory was erected with a planned capacity of 800 tons annually. In May the new explosives filling factory, which had hovered between Bendigo and Albury, had been deferred in favour of extending Maribyrnong at a cost of £270,000 "on the understanding that the work be completed in nine months", and with the direction that a survey was to be made for the site of another explosives filling factory away from Maribyrnong. The Department of Supply had replied that there could be no guarantee about the time taken to complete, "because there are many necessary factors outside the control of this department", and at the same time said bluntly "it is regretted that it will be impossible for the limited directing staffs available to give immediate attention to this matter [the new site] and concurrently deal with the acceleration of munitions production ordered by the War Cabinet".³

Item	Present annual capacity, Maribyrnong	Annual capacity being planned on 3-shift basis				Total
		Maribyrnong	I.C.I.A.N.Z. annexe, Deer Park	New factory, Salisbury, S.A.	New factory, N.S.W.	
		Tons				
Cordite	1,100	2,100	2,400	4,050	3,350	11,900
T.N.T.	600	600	2,000	3,000	3,600	9,200
Tetryl			140	300		440
Service gunpowder				200		200
Carbamite			600			600

Source: Munitions Digest, Dec 1940.

In effect, when the munitions reorganisation took place the factory at Deer Park and the carbamate annexe were the only new factories being built. On 17th June 1940 the Director-General of Munitions submitted to the War Cabinet that the capacity of the Maribyrnong explosives factory could not be increased beyond the £270,000 recently authorised, and a new factory must be built elsewhere. On this a decision was made on the 25th approving the recommendation by Essington Lewis and the Defence Committee that "the most satisfactory site from both defence and manufacturing points of view" was Adelaide.⁴ A further step was

³ War Cabinet Agendum 108/1940.

⁴ A minor point, but indicative of the new order of things, is the fact that this decision was made by the War Cabinet on 25th June, but under date 24th June the Director-General's Report announced: "The locality of the second explosives and filling factory has been determined and site tentatively selected." The exact location was Salisbury, about fifteen miles from Adelaide.

taken in September 1940 when Ballarat was selected as the site for a gun-cotton factory with a planned capacity of 2,500 tons a year. At the end of 1940 the Director-General explained the cordite position to the War Cabinet, revealing a deficiency of 2,500 tons for which he suggested, and the Defence Committee supported, a new factory in New South Wales.⁵ At December 1940, therefore, present and planned annual capacity was that shown in the accompanying table. This was to prove vital in the future of the whole munitions programme.

Gun Ammunition.

The efforts of the Gun Ammunition Directorate related to production of munitions in annexes and in industrial establishments, not to the government munitions factories, although it was in the latter that the empty components would be filled and assembled. To this end the directorate inherited the work of which the Defence Supply Planning Committee had laid the foundations: the annexes, the established bases of contract arrangements, also the collection of information. Because of this early work it was comparatively easy for the directorate to go ahead swiftly with the creation of annexes operated by parent firms for the production of gun ammunition stores.⁶ Before the reorganisation some twenty-six annexes had existed. By December 1940 the total (including those planned, and those in which as yet production had not begun) was sixty-two.⁷

Production was governed especially, indeed wholly, by the supply of machine tools, gauges etc. and the Gun Ammunition Directorate—like the rest of the new organisation—looked to the new Machine Tools Directorate to remedy the deficiency. Similarly tool-setters were needed and a beginning was made, at Spotswood, Victoria, to train them. The directorate

⁵ War Cabinet Minute 599, 31 Oct 1940. Total requirements were estimated at 10,500 tons a year; present capacity at 3,950, leaving an approximate deficiency of 6,500 tons of which the new South Australian factory should be designed to produce 6,000 but had through lack of labour been limited to 4,000 tons. To spread the production over a group of country towns would be uneconomical; it must be near a large centre of population. Between Parramatta and Penrith was a probable area, but the Prime Minister suggested Cessnock and Kurri Kurri in view of unemployment on the coalfields. War Cabinet Minute 699, 16 Jan 1941, recommended the Cessnock-Maitland District, approximately twenty-five to thirty miles from the ocean, for explosives, and the western fringe of Sydney for the pyrotechnics. War Cabinet Minute 1056, 9 May 1941, reversed these locations. The new arrangement "would satisfactorily meet the problems of labour supply and availability but the first consideration had been suitability from the technical standpoint".

⁶ The Secretary of Supply and Development (J. B. Brigden) has written: "In 1939 developments towards munitions annexes, mobilisation of manpower, and the census of materials moved along together. The annexes were the simplest problem and they made the most progress."

⁷ Munitions Digest Dec 1940, p. 50:

	N.S.W.	Vic.	Qld.	S.A.	W.A.	Tas.	Total
Primers	2	3	1	1	1	1	9 (1)
Gaives	—	7	1	1	—	—	2 (1)
Fuses	6	—	—	—	—	—	13 (4)
Pistols							
Bomb and Depth Charge	2	—	—	—	—	—	2
Shot and Shell	9	4	1	4	1	1	20 (11)
Grenades and Bombs	1	3	1	1	2	—	8 (4)
Air Bombs	2	2	—	2	—	—	6 (3)
Mines	—	1	—	1	—	—	2 (1)
	22	20	4	10	4	2	62 (25)

(The figures in brackets are the number for which production was recorded June-November 1940. Note the emphasis on fuse production; indicating attempts towards a balanced production programme.)

hopefully named June 1941 as the time by which the present number of units would be in production. Location of manufacture of gun ammunition components depended also on the location of the filling and assembly factory, so that policy needed to be related to that of Explosives Supply. Typical of the expanded production was that of aircraft bombs; 8½-lb practice bombs had been made at Maribyrnong, but by December 1940 production included (for empty bombs at least) 20-lb, 100-lb, and 250-lb bombs made by annexes and private firms.

Ordnance Production.

In this Directorate the procedure followed was to arrange, under major coordinating contractors, the production of components of equipment by suitable manufacturers.⁸ Apart from the supply of items such as machine tools and gauges by the Directorate of Machine Tools and Gauges (in effect by the Commonwealth) it was found that the "resources of the Australian engineering industry were adaptable to a gratifying extent and consequently the need for governmental assistance was limited".⁹ The Directorate relied on the existing resources of manufacturing industry, and in December 1940 there were only five annexes of the type that existed for the Gun Ammunition Directorate.¹

As in the other sections of the munitions reorganisation, the new Ordnance Production Directorate built on the foundations already laid. Because the ordnance factory at Maribyrnong was now occupied with other items, the factory retained only the ordnance (the gun proper) of the 3-inch anti-aircraft gun, and commercial industry took over the mounting and the travelling platform.

Similarly, the 2-pounder anti-tank gun and the 25-pounder quick-firing gun howitzer had been allocated originally to Maribyrnong. In June 1940, however, the production of the complete 2-pounder gun equipment was transferred to industry under the general supervision of a South Australian major contractor, General Motors-Holden's Limited. This transfer as a

⁸ It would appear therefore that this Directorate, more than any other, was likely to need and make use of the Boards of Area Management as a source of ready information about, as it would be a means for quickly using, the productive capacity of industry.

Unfortunately the arrangement was not always a happy one. According to one view, the manufacturer "could not serve two masters, and inevitably . . . acted entirely under the direction of the Boards and not of the Directorate. . . . As the responsibility of production actually rested with the Directorate handling the Service order, it was only logical that full control of production should have been vested with that Directorate and not left balanced between two Departments under the Ministry of Munitions . . . overlapping of work and manpower was often only too obvious together with the unnecessary calling for sets of drawings, designs and other technical data by technical officers of the Board . . . when such details had been handled and settled by the production engineer of the . . . Directorate. . . . it was notable very early in the war that there were still interstate jealousies in Australia and cases were found where Boards of Area Management were inclined to keep work within their own State when it could much more readily have been performed elsewhere and the Directorate was often called upon to tactfully suggest subcontracting outside a particular State . . .". (Opinions of a writer of a wartime story from within the Department.)

Boards of Area Management, from their standpoint, could put forward the contrary view of "interference" from Melbourne.

⁹ Munitions Digest, Dec 1940, p. 62.

¹ Engines, patrol vessel: Thompson's Pipe & Engineering Co, Victoria.

Optical munitions: Mount Stromlo Observatory, A.C.T.

Gun forgings: Commonwealth Steel Co., Newcastle, N.S.W.

Prismatic compasses: J. W. Handley, Victoria.

Gun manufacture: Ruwolts, Victoria (25-pounders).

going concern was an important factor in the speed with which increased production was attained; the first three guns were delivered in April 1941.²

The more intricate mechanism of the 25-pounder required much longer time for development, particularly as drawings and a sample gun with the complete equipment did not arrive in Australia for some months afterwards; moreover it was begun later; but gun barrels and breech mechanisms were already in production at the government ordnance factory in December 1940, and commercial industry hoped to have the carriages in production early in 1941. Industry was at first entrusted with liners, jackets, carriages and trailers, but in his report of May 1941 the Director-General told the War Cabinet that in view of the scarcity of machine tools and of difficulties of technique in production of nickel steel pressings and of riveting and welding,

Consideration is being given to whether an amelioration of the position might be effected by relieving industry of the development of jacket and liner production which can apparently be taken care of by Maribyrnong and thereby concentrating capacity on carriage production which is most urgently required.³

In this report the production of the 25-pounder (ordnance only) at Maribyrnong showed a total of 13, but the first and only complete gun which had been proved on 29th May had a carriage assembled by the Victorian contractor from components available from New South Wales. There were some disappointing features: the recuperator proved a limiting factor; and a number of steps "had to be taken to eliminate weaknesses revealed in the sub-contractor organisation by the withdrawal of orders on unsatisfactory sub-contractors to be placed elsewhere".⁴ By September 1941 the three principal parts of the gun were in production, but still at unbalanced quantities: ordnance total of 81, carriages total of 17, trailers total of 92.

With the 3-inch mortar, first ordered in October 1939 (though, of course, a much less complicated item to manufacture), considerable success was achieved.⁵ A Victorian contractor who began production with 11 in March 1941 had completed 954 by September 1941.

The other gun in production was the 3.7-inch anti-aircraft which was coming from the Maribyrnong ordnance factory, but without predictors,

² The following is the production to Dec 1941 (from Director-General's Reports Nos. 11 to 19):

1941	Average weekly production	Progressive total
Apr . . . . .	.	3
May	2	13
Jun	6	35
Jul	11	89
Aug	12	137
Sep	11	192
Oct	7 (a)	221
Nov	14 (b)	276
Dec	28	576
1942		
Jan	30	696

(a) Trouble with barrels was given as reason for decline.

(b) This figure was variously shown as 14 (Report No. 17 for Nov) and 28 (Report No. 18 for Dec). This accounts for the apparent conflict between average weekly production and progressive totals.

³ Director-General's Report to War Cabinet No. 12, p. 46.

⁴ Report No. 12, p. 40.

⁵ By the end of Aug 1941 100 mortars ordered for Malaya had been delivered by the Munitions Department.

and therefore of limited value.⁶ The army had ordered predictors from overseas before the war under the impression that they could not be manufactured in Australia, and because of difficulties in regard to patent rights which were the exclusive property of a British armament firm. The predictors had to be made in Australia ultimately, and the first were completed in 1942.⁷

These were all projects which had been in existence before the reorganisation, and for which the chief problem of the newly appointed directorate was to speed up production. New ordnance items ordered were: the 40mm light anti-aircraft gun (the Bofors) to be made mostly at the government ordnance factory, .38 pistols to be made by industry, and, for the navy, production of 4-inch high-angle guns, to be made entirely by the government ordnance factory.

A special feature of the work of the directorate was the tremendous variety of the equipment: artillery stores, armoured fighting vehicles, engineer stores and optical munitions. The more ordinary needs—wire cutters, generators and telephones, for example—were in production by December, but items such as optical munitions awaited the experimental work of the new panel⁸ while pontoons, fuse-setters and range-finders awaited the results of investigation of productive capacity.

Quite early there arose the need for a close liaison between the directorate and the Services—particularly the army—from whom would come the demands, and for whom all production was intended. To begin with, the Director-General took the matter up with the Prime Minister, not on the question of coordinating design and specifications, which was a later development of the same need, but on the question of firm orders for munitions generally. He had, he said, treated the Services' programmes submitted to him as orders; he had been given to understand that the final quantities would be at least no less than those of the programme. But it now appeared that the programmes could be treated as tentative only, and if the Munitions Department embarked on production they might find that an item was not required and that they were, in fact, left

⁶ Production (from Director-General's Reports Nos. 1 to 18) had been:

1940				Total	Progressive Total
To	Nov	.	.		33
Dec	.	.	.	7	40
1941					
Jan	.	.	.	7	47
Feb	.	.	.	12	59
Mar	.	.	.	12	71
Apr	.	.	.	13	84
May	.	.	.	12	96
Jun	.	.	.	13	109
				Weekly Average	
Jul	.	.	.	3	124
Aug	.	.	.	3	136
Sep	.	.	.	1	143
Oct	.	.	.	2	152
Nov	.	.	.	3	165
Dec	.	.	.	3	178

⁷ War Cabinet Minute 6, 29 Sep 1939 had approved £75,000 for plant for production of predictor gear in Australia because it was "no longer available from England and therefore must be made locally".

Australian-made guns, shipped to England, were used during the Battle of Britain.

⁸ See D. P. Mellor, *The Role of Science and Industry*, in this series, for a discussion of optical munitions.

without an order. He felt that something should be done to speed up the placement of firm orders.

From the army point of view the solution was not so easy. Firm demands had been delayed by "action to simplify the army's needs to fit in with the production position of what could be made in Australia within a reasonable time". Moreover items had to be related to established stores. The Munitions Department asserted that it was important they should be "in contact with the army during the formulation of proposals instead of having to await a firm order before being brought into the matter".⁹ It was necessary to see if the item could be produced in Australia, and whether, without detriment to design, variations could be made to assist production.

The result was a committee¹ which, whatever the intention in the minds of those who set it up, became the vehicle for close technical liaison between the Ordnance Production Directorate and the army, and nothing else. Suggestions were made at the time of its inception that a similar machinery might be created for the other Services, but the navy saw no need and was interested only in questions of inter-Service priority; the air force did not reply.² Confining its attention "to technical questions associated with practicability of manufacture, variation of specifications and supply and substitution of materials necessary for manufacture",³ the committee served a useful purpose until 1942. Then the irruption into its sphere of more complex matters of inter-service priorities, the effect of criticism from the committee reporting on the "review and consolidation of the munitions programme", and generally incompatible elements induced its replacement.

For the time being, however, the directorate proceeded enthusiastically with the various objects put to it by the army, perhaps the most ambitious of which was the production of the tank as part of an armoured fighting vehicles programme. Before June 1940, 140 Bren-gun carriers had been produced by industry. These, however, were being replaced by an improved "Universal" carrier, planned for use as a Bren-gun carrier and also as an armoured mobile platform for the 2-pounder anti-tank gun. By June 1941, 289 of these "L.P. No. 2" carriers had been produced.

This was good going, but the simple light carrier was not to be compared with the cruiser tank. Elsewhere the technical complexities and indecisions which dogged the manufacture of an Australian tank will be followed;⁴ here the important point is to note that they existed, and that the venture

⁹ From a conference held 27 Aug 1940. The Prime Minister and Treasurer stressed that while such suggestions might be acceptable as an initial step, "the normal procedure in regard to demands was still to be observed and action taken thereunder as promptly as possible as it was essential for accurate financial and store accounting". The same problem, of alleged urgent steps to assist production fighting established financial procedure, was seen in the early difficulties of the Supply Department recounted elsewhere.

¹ Army and Munitions Coordinating Committee, approved by War Cabinet Minute 535, 24 Sep 1940.

² War Cabinet Minute 1425, 22 Oct 1941, however, decided that the same coordinating machinery and procedure should be established between the air force and the Department of Munitions.

³ Note by Minister for Munitions, 26 May 1941 (War Cabinet Agendum 63/1941 Supplement 1).

⁴ See D. P. Mellor, *The Role of Science and Industry*, in this series.

was for the Australian manufacturers almost entirely experimental; except for some development of motor-body building and the making of a variety of engine parts, the production of motor cars had not been established. Nevertheless in mid-1940 in the fighting on the Continent, and later in Middle East campaigns, the tank appeared to be vital, and it was in the light of such convictions that the Australians pressed on with its manufacture.

Design of a 10-ton tank had been proceeding within the army before the first conference of 12th June 1940, at which the Director-General of Munitions was assured that the tank was within his charter. In subsequent discussions the General Staff specified a 15-ton tank, but the design finally adopted was 22 tons. In part it followed the features of the M3 American tank which the British tank expert, lent by the War Office to the Australian project, had seen on his way through the United States of America to Australia at the end of 1940. Under his guidance, however, sections which were, in his view, unsatisfactory, were redesigned.

To begin with, the Military Board on 26th June had recommended as an immediate objective the provision of cruiser tanks. The War Cabinet approved orders for 859 of them and 2,012 Universal carriers; an amount of £16,909,000 was made available; the United Kingdom was to be consulted about types. Begun in the Design Directorate of the army, the tank project, after its approval by the War Cabinet, became the joint responsibility of this directorate and of the Directorate of Ordnance Production of the Munitions Department, and in October it was "hoped to be in production with the 'Cruiser' tank within four months".⁵ By December nine acres of land had been acquired at Port Melbourne⁶ to accommodate workshops and test grounds and £250,000 had been allocated for buildings, plant and maintenance. In February 1941 the War Cabinet was told that "production of the first acceptable tank was planned to take place in November 1941 and thereafter that the delivery of tanks to the army would be: 5 per week for 4 weeks, 7 per week for 12 weeks, 10 per week for 17 weeks, and that complete delivery of 340 tanks was planned to take place by 1st August 1942".⁷ Two days later

⁵ Munitions Digest, Aug 1940, p. 40.

⁶ The statement is taken from the Munitions Digest of Dec 1940. In fact the land was at the time still Crown land of the State of Victoria, and so late as August 1941 negotiations continued about it. The State offered leasehold for fifty years but would "waive the usual conditions for review of rental each ten years and for improvements to revert to the State". Commonwealth policy that capital expenditure on buildings should not be incurred on other than freehold land rejected the suggestion, despite State policy "concerning sites in this locality" which "definitely restricts occupations to leasehold".

A similar problem had arisen in April 1941 over the acquisition of 2 acres 11.5 perches for the naval reserve depot in the same area. Then the Commonwealth had invoked its powers of compulsory acquisition (at the same time refusing to agree to a proposal that negotiations might proceed concurrently with the building of the new depot).

Economic and Industrial Committee of Cabinet submission 50, decision of 15 Aug 1941, recorded a similar solution—the land was to be acquired for the new factory under the compulsory clause of the *Land Acquisition Act*.

Such incidents consumed much time when time was precious. They are yet another illustration (even if a minor one) of the conflict between Commonwealth and States which had to be resolved before a united effort might proceed.

Negotiations over the acquisition of Garden Island, Sydney, were protracted, though more cordial.

⁷ War Cabinet Minute 826, 18 Feb 1941.

the Minister for Munitions told the Advisory War Council that "after investigation he was rather doubtful whether this would be achieved".⁸

There were constant discussions about modifications to the design to fit army requirements, to adapt it to local resources, to take account of uncertainties in delivery of items from overseas; but all these difficulties apart, over-optimistic predictions of delivery were regrettable.

From the beginning it was assumed that the power unit would come from abroad, and there followed considerable discussion and negotiation about the use of an American diesel engine, to be either imported, or made in Australia under licence from the manufacturers. No finality could be reached on this, not least because the price kept rising steeply, and as a temporary stop-gap a "clover-leaf" arrangement of three Cadillac engines was approved in May 1941. Even this decision was made against opposition—this time from the parent oversea company which disapproved of its subsidiary initiating technical changes. Other difficulties which, summarised, concerned tracks, gear boxes and final drive axles, and which, fundamentally, concerned insufficiency of machine tools, appeared to place the completion of the tank still further away.

From the beginning the Directorate of Ordnance Production had maintained a technical representative on tanks in the United States, and his return in May 1941 was the occasion for their proposal for a new type of tank. The army was not happy about a lighter tank, but in June 1941 agreement was reached to proceed with the earlier design, the A.C.1, but to produce concurrently with it a simpler, lighter tank, the A.C.2, from components produced in America.⁹ The decision was meant to "introduce a quick action programme of production", and in anticipation of the army's order for A.C.2 tanks, cables were sent to the British Purchasing Commission in New York, "requesting that the manufacturers of the components we are to obtain from the United States should be notified of our requirements, and firm orders be placed on the basis of a production programme of 400 A.C.2 tanks". The Director-General's report continued:

As yet the Directorate has not received the official order for A.C.2 tanks. Nevertheless to enable development of casting capacity to proceed without delay, orders in terms of the A.C.1 tanks have been placed on contractors who will be required for this class of work for both types. This capacity, whilst primarily required for

⁸ Advisory War Council Minute 160, 20 Feb 1941. The Minister for the Army in May (War Cabinet Minute 1088) was to express doubts as to the local capacity to provide the tank production on estimated programme of deliveries. The Board of Business Administration, aware of the growing manpower problem, viewed with alarm the prospect of technicians enlisted in the new armoured division (at the expense of munitions and production generally) doing nothing while they waited for equipment; and pleaded that "training programmes for the armoured division should be related to and dependent upon the time within which the equipment for such a division will become available". (Board of Business Administration Minute 531.)

⁹ War Cabinet Minute 1116, 4 Jun 1941 records conference between Army and Munitions at which this question was raised. War Cabinet Minute 1169, 4 Jul 1941 reports decision for further conference on design, as well as allocation of responsibility for design. War Cabinet Minute 1191, 10 Jul 1941 approved the change as outlined above.

Subsequently War Cabinet Minute 1245, 23 Jul 1941, recorded that the "Minister for the Army referred to a proposal made to him by the General Staff that the policy of local production of A.C.2 cruiser tanks be abandoned in view of the prospects of improved supplies of M3 cruiser tanks from U.S.A. This was not approved and it was decided the local production programme already authorised is to be proceeded with".

A.C.2 tank will be swung over to A.C.1 production just as soon as availability of machine tools permits our proceeding to our ultimate objective, that is the production of the A.C.1 tank.¹

Aircraft Production.

The halting production of aircraft that was so far being achieved was taken over by the new munitions organisation in June 1940 when the Aircraft Production Commission became part of the new department. Deliveries of Wirraways continued to lag a little, 114 by September, 204 by December 1940, although the estimated figure for the latter date had been given as 232. Technical difficulties in the single-row Wasp engine also appeared, which caused it to seize.

In June 1940, when the Empire Air Training Scheme requirements were being considered, the War Cabinet had approved "in principle of the purchase by the Commonwealth Government of the Commonwealth Aircraft Corporation's factory at Fishermen's Bend",² and in the War Cabinet in September the question was again raised as to whether the Aircraft Production Commission should not have greater power of control over the production of the Corporation. The Prime Minister, however, referring to the earlier suggestion about taking over the corporation, stated that the indications were that this step would have to be by compulsion.

Unfortunately the government-owned-controlled-and-financed project (the Beaufort) was not itself proving capable of maintaining the production schedules submitted to the Cabinet. The schedule of April 1940 was revised in July 1940 to read: raw materials May 1940, details completed August 1940, components November 1940 and first aircraft February 1941. Various reasons were canvassed for the generally unsatisfactory results, but chief among them was the supply of raw materials. Between the two aircraft lay considerable differences in complexity and design—the one a bomber, the other a trainer. The Beaufort scheme had depended almost entirely on imported materials; the Wirraway had sought to develop local supplies. Both projects sought to extract the materials they needed from overseas, by personal visits, by missions, by liaison with purchasing authorities. These were factors which the whole administration could only strive to overcome, aware all the time that the events overseas produced reasons for non-delivery about which they could do nothing.

There were, however, certain domestic features of aircraft production which were not only unfortunate, but which were within the grasp of the Government to alter. The conflict between the two aircraft projects could not fail to have adverse effects on production. The commission, itself a manufacturer, was responsible to the Government for the production of the corporation, and the chairman of the commission, at least, continued to favour "the acquisition by the Commonwealth of the Aircraft Corporation factories to be worked in the same manner as Maribyrnong and other munitions factories where, with proper organisation, production is balanced

¹ Director-General's Report to War Cabinet No. 12, p. 41.

² War Cabinet Minute 327, 11 Jun 1940.

and better cohesion obtained".³ Meantime, however, when tackled on the point, he stated "that the Commonwealth Aircraft Corporation had not fulfilled their programme, the reason for non-fulfilment generally being brought about by conditions over which the corporation had no control".

The third of the early aircraft production projects alone appeared free of defects and disappointments. On 10th October 1939, as part of Australian discussions about the contribution to Empire air defence, 350 Tiger Moth air frames and 500 Gipsy Major engines were ordered from the De Havilland Aircraft Company. It was an elementary training aircraft, and in both materials and construction provided no major problems for the local aircraft industry, and few affecting raw materials. The first machine was delivered in May 1940, and by December the total was 208, by June 1941 461. As part of this project the production of Gipsy Major engines commenced in September 1940, rising to 84 by December and to 319 by June 1941.

But whatever the dissatisfaction expressed about rates of Beaufort deliveries, yet more ambitious plans were afoot for the industry. As part of the recognised fact that the aircraft requirements of all Allied countries should be catered for economically and efficiently rather than that each should become committed to divergent types, exploratory cablegrams had been sent to England. The Australians were concerned about the future of the productive capacity inasmuch as, they asserted,

By the end of 1941 production of Tiger Moth and Wirraway airframes with Gipsy Major and single-row Wasp engines must be drastically reduced as by that date most of the Empire Air Training Schools will be formed and output of our Moth and Wirraway factories will be required to meet little more than wastage. In addition, by that date it is hoped that the present contract for 180 Beauforts will be completed and the Beaufort airframe and twin-row Wasp engine factories faced with necessity for new contracts or closing down.⁴

Locally there was a conference at the end of October 1940 and the War Cabinet approved the full utilisation of production after present contracts, a request to the United Kingdom to indicate the types of aircraft which they regarded as best to occupy Australian capacity until March 1942, an invitation to the United Kingdom to send complete factory equipment or personnel to Australia, the production by Commonwealth Aircraft Corporation of a 1,500 to 2,000 horse power engine, and the attempt to discover a two-seater bomber or fighter-bomber to be developed to meet Empire requirements for production in Australia. Before this approval, however, the substance of the submission had been sent to the Air Ministry in England, and their reply, though it welcomed further production of Tiger Moths and Wirraways after 1941, and approved the production of Ansons for which they would supply the engines, as well as promising further "runs" on the Beaufort production or its substitute until February

³ War Cabinet Minute 742, 4 Feb 1941.

⁴ Cablegram Prime Minister to High Commissioner, 25 Aug 1940. In fact, at December 1941 the Tiger Moth production totalled 718, the Wirraway 491, the Wackett trainer 100 and the Beaufort 10.

1943, stated that they could not spare assistance in either equipment or personnel, and they considered the proposed 1,500 horse power engine of no advantage unless suitable for the Beaufort, nor could they support it "if it involved the diversion of machine tools".

The Australians were eager. The existing production was thus assured and they applied themselves to the engine project:

We wish to select engine for local production which will suit—

- (a) alternative aircraft developed from Beaufort;
- (b) long range two-seater fighter such as Beaufighters;
- (c) possibly development of the Commonwealth Aircraft Corporation prototype bomber, specification of which has been forwarded to you and in connection with which we would appreciate your early comments.

They suggested the Wright 1,600 horse power series 2600 and commented

War Cabinet has already approved of preparations for local production of an engine of this class. Consider the question of machine tools need not arise at this stage.⁵

The following month the Prime Minister went to England and with his party was a member of the Aircraft Production Commission. On his return this officer recommended the manufacture of the Beaufighter aircraft, a long range two-seater fighter, concurrently with the Beauforts. So far no Beauforts had been delivered, although an experimental flight of the first occurred early in May 1941. However the new aircraft took care of the industry's predominant concern: that capacity, once established, should continue to be occupied, and that there should be no surrender of such capacity, or diversion elsewhere. In April 1941 orders from the United Kingdom for 420 Tiger Moth aircraft with engines, during 1941, and 245 Wirraways surplus to Australian requirements, in 1942, at an estimated total cost of £3,150,000 (Australian) had secured future production of two of the Australian machines.

The general belief that warlike production, of any type, once established must be maintained, affected aircraft no less than other items. But with aircraft, as with munitions, the belief was reinforced by the arguments of strategic necessity, so that no justification was required, and little or no regard had to be paid to the demands which a project might make on manpower or materials. In figures of employment can be seen the expansion which had taken place in twelve months:⁶

	June 1940	June 1941
Aircraft Production Commission including Engine		
Factory, Lidcombe, and government annexes	697	4,082
Private aircraft manufacturers	3,291	5,438
Major aircraft contractors	915	2,367

The allocation of a separate portfolio to aircraft production when the Prime Minister reorganised his Cabinet in June 1941 could occasion no surprise.

⁵ To High Commissioner, London, 4 Dec 1940. But nothing came of the project.

⁶ From "Aircraft Production in Australia", a document prepared Feb 1944 (although, in fact, undated), Appendix B.

Machine Tools.

In the "International Situation and the Australian War Effort", the review which was before the War Cabinet at the time of its decisions about reorganising munitions production, proposals were put forward for the "rounding off" of that production; not the least of them concerned machine tools. The review stressed not only the limitations placed on future production by the lack of machine tools, but also the limitations imposed by having to train workmen. Against the three pre-war firms engaged in local production of tools and gauges the Supply Department could now boast fifty on its list. Some of them were only small, but each was a nucleus for production:

... but an impasse has been reached; the small firms have not the means to buy the requisite tool and gauge manufacturing machines and have no use for them in their ordinary commercial business. The Commonwealth must buy the machines and lend them upon suitable terms.

The Machine Tools Committee was pressing this course (it had been part of the negotiations for the committee's establishment) and the War Cabinet on 22nd May 1940 approved £80,000.⁷

The principle so established was maintained by the new Machine Tools Directorate which took over in June, although the earlier committee continued in existence until August 1940 before being dissolved. By that time the committee had been responsible for: 118 machines from the United States of America (£126,604), 21 machines from the United Kingdom (£6,900), 105 machines from local purchase (£35,410); it had sent 5 machines to Malaya and Singapore (£1,558); 30 machines were on order from overseas (£11,288).⁸ The machines covered a wide variety in type and price.

The new director had been present at Machine Tools Committee meetings and was aware of the problems he must face. The first move was to institute some sort of control over the use of the vital equipment which lay at hand before looking to the problems of increasing the quantity of that equipment. To this end the regulations prevented the expenditure of more than £100 on "alteration in or re-adjustment of any machinery" for the purpose of making or producing a new design.⁹ This restriction on "tooling up" prevented, to some extent, the introduction of new articles or speculative articles for merely civil requirements and reserved tooling for direct defence purposes.

⁷ War Cabinet Agendum 112/1940; Minute 285.

The following programme was recommended for capital expenditure to provide equipment to assist in the provision of tools and gauges:

- 20 universal grinding machines (from local sources)
- 20 surface grinding machines (from local sources)
- 6 projecting machines (from local sources except lenses)
- 10 universal milling machines (from overseas)
- 10 tool and cutter grinding machines (from overseas)
- 12 toolroom lathes (from overseas)
- 10 hardening furnaces (from local sources)

At least three of the locally produced items would be in the nature of experiments since they had not been made before by the intended manufacturer.

⁸ The Prime Minister had made available £100,000 to the Trade Commissioner in New York for the purchase of machine tools, mostly intended for aircraft production.

⁹ Statutory Rules 1940, No. 118, 26 Jun. Amendment to National Security (General) Regulations.

Local production was next investigated. Despite the efforts in this direction both before and after the outbreak of war much remained to be done. Ultimately a complete record, indexed, of every machine tool and allied piece of equipment existed, but in the first months of the new directorate only the beginnings of this essential record existed with the aid of which problems of impressment, allocation and control might be solved. From the beginning the directorate was under the immediate control of the Director-General, and was thus independent of the Boards of Area Management, but it remained peculiarly vulnerable to the pressures of those contractors whose productive capacity was being urgently augmented by production directorates of the department, and whose efforts to obtain machine tools, by fair means or foul, could always be justified by quoting the general admonition to speed the war effort. When supply of labour emerged as the primary problem it was suggested that they should release men temporarily, but none were made available; in turn production directorates—and contractors—suggested that toolroom plant should be made available and they would undertake the work, but this, judged from the well-being of the whole war effort, was inefficient; it opened the road to misuse, it made the idea of a central pool unworkable. Ultimately efforts were concentrated on marshalling all possible personnel having toolroom knowledge, even to include plants employing only two or three people. Additional plant was made available to them and priorities of work instituted; later, progress men were allotted to supervise and ensure these, as well as taking care of the chase for materials so that the machine tool manufacturer would be relieved as far as possible of any obstacles to speedy production. Claims were made that the scheme produced bottlenecks, and organised pressure by some contractors was such that it was necessary to prevent contractors having access to the toolrooms; indeed those demanding tools and gauges were denied any advice as to where production of those they asked for had been allocated.

The first major demand was for Bren-gun production and this was met by diversion of existing machines; another, that of automatic lathes for the fuse programme, was fulfilled partly by local production. At the beginning the pool was set at 135 lathes, 70 grinding machines, 139 various munitions machines, and over 500 shell-turning machines. After the fall of France 100 machine tools were released by the British Purchasing Commission for aircraft production purposes. These, after being adapted to local electrical requirements, were a welcome addition; but, when the United States were unable to release the machines needed for technical training, local production had to produce 600 to enable the project to proceed.

By the end of January 1941 the actual delivery to various munitions and defence activities was 1,300 major machine tools from all sources, and, despite this commendable effort, the programme was from four to six weeks behind schedule. Moreover, hopes for machines from the United States were disappointed and the demands on local production increased correspondingly. The directorate strove to ensure that such equipment

as did exist was being used efficiently, and stipulated that no additional machines were to be provided for a plant unless those already available were working at least sixteen hours a day on a two-shift basis); and similarly it sought to ensure that those responsible for new projects as far as possible indicated their likely demands sufficiently far ahead to enable the toolrooms to produce the equipment at a time to coincide with completion of buildings and scheduled dates for commencing production.

The second year of the war saw a great expansion both in range and quality, and by then no less than seventy-five firms were engaged.¹ The Australian-made machine tools in hand amounted to more than 5,000 and a value of £3,500,000.

Materials Supply.

In materials supply for munitions, as in the whole plan of munitions production, the effect of the reorganisation was to continue, but at notably increased scale and speed, the plans and procedure instituted before June 1940. The new Materials Supply Directorate was linked closely to the earlier Civil Supply Division both in staff, procedure and policy.² As with other sections of the new arrangement—invigorated by the unrestricted commission given the Director-General and the liberal financial powers—the directorate had by December 1940 expanded its programme to a total of £4,540,000, that is £3,372,000 above the figure at 1st June. Heavy purchases were made of materials imported from overseas, but of locally produced materials the purchases were restricted to sufficient quantities to ensure continuity of production.³

In ferrous metals Australia was well supplied from local deposits.⁴ The steel industry, of comparatively recent origin, produced at "costs

¹ About half were in N.S.W. and about half in Victoria; the remainder in South Australia. The value of a National Standards Laboratory in addition to the Supply Department's metrological laboratories must be stressed. Fortunately the National Standards Laboratory had been begun on the eve of war, and was operating by Sep 1940.

² H. C. Green, the Controller of Materials Supply was also Assistant Secretary (Civil Supply), Dept of Supply and Development.

³ The functions of the Materials Supply Directorate related particularly to the machinery of control and the importation of bulk and reserve stocks rather than to the management of production. The self-contained Directorates (Aircraft Production and Explosives Supply) took action in regard to materials which were exclusive to the activities they were directing. (Munitions Digest Dec 1940, p. 116.)

⁴ The depletion of the iron and steel resources of the Commonwealth "in a little more than a generation" to the point where the country might become an importer instead of an exporter of iron ore, was predicted in a report of the Commonwealth Geological Adviser dated April 1938, and in May the Commonwealth prohibition on export of iron ore was imposed as from 1st July 1938.

The complete survey which followed this prediction about depleted resources would, the Prime Minister hoped, result "in the appearance of some reassuring features", but the embargo continued and in June 1940 the full Cabinet voted for its retention. Discussion centred around conflict in estimates of the resources, and* in Western Australia, for instance, while a member of the Yampi Company and the Western Australian authorities agreed that the Koolan Island deposit contained at least 150,000,000 tons of ore, the Commonwealth Geological Adviser placed the economic reserve of the deposit somewhere between 40,000,000 and 90,000,000.

This particular deposit had been leased to a London company who had in turn entered into an agreement with a Japanese company which was to provide a loan to the operating company on the understanding that Japan would receive the whole of the output for shipment to Japan. Quite apart from the international political difficulty which the embargo produced, in this case, there was a strong movement developing in the Western State for the establishment (especially in view of Whyalla in South Australia) of a fabrication plant there to handle the State's own ore.

comparing favourably with those in any country of the world"⁵ and probably as efficiently as "any in the world". At the outbreak of war from about 2,400,000 tons of iron ore annually about 1,400,000 tons of pig iron were produced, a figure which it was hoped to increase by 200,000 tons when the new works at Whyalla, South Australia, commenced production.⁶ The end result was about 1,152,000 tons from the steel works and rolling mills and about one-third of the total output was being shipped overseas for the British Government. By December 1940, however, the regular monthly quantity of about 25,000 to 32,000 tons had been reduced in view of the increased local demand. Similar adjustments had to be effected in the tonnages supplied to associated local industries (galvanised iron, barbed wire, fencing wire and netting manufacturers for example) but the guiding general policy pursued was that the Broken Hill Company would make available, as a prior claim on all steel, the defence needs of the country.⁷

Ferro alloys were in the beginning imported, chiefly from the United Kingdom, but efforts by the Broken Hill Company were directed towards

⁵ Financial and Economic Committee paper 36b (approximately mid-1941) records comparative costs of American, Indian, British and Australian steels per ton:

Classification	American F.A.S. Atlantic Seaboard	Indian F.O.R. Works	British	Australian F.A.S. or F.O.T. Works
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
2½ in. to 5½ in. Rounds "as rolled"	17 16 5	22 1 3	19 15 11	7 17 8
3½ in. to 3½ in. Rounds "Normalised"	22 10 3	—	21 13 8	8 1 11
3½ in. x 3½ in. to 6½ in. x 6½ in. Push Bench Billets "as rolled"	17 16 5	22 1 3	19 15 11	7 7 11

Notes:

The foregoing prices are based on the following rates of exchange:

American—\$3.982: £1.0.0 Australian currency.

Indian—Rupee: 1/10-1/16d Australian currency.

British—£100.0.0 Sterling: £125.10.0 Australian currency.

1. Prices are in £ Australian on June rates of exchange.
2. Prices are average for the sizes mentioned. The first group is more typical of U.K. and the last of Australian quantities.
3. British and Australian prices are for delivery in the countries of production and not for export.
4. The British price includes a levy of 50s sterling per ingot ton to spread the cost of war-time freight, insurance etc., on imported steel and raw materials. The Australian equivalent per ton of finished shell steel is estimated to be £4.3.8. For comparison this amount should be deducted from the British price.

It is of interest to note that in Oct 1946 the position was maintained and that differences in favour of Australian prices varied from £4 10s 7d a ton (sheet bar) to £10 2s 11d (merchant bars).

⁶ The date set was March 1941; production, in fact, commenced in May 1941.

Proposals to provide water for Whyalla by a pipe line from the Murray River were explained by the South Australian Premier to the Economic Cabinet on 11th March. The Broken Hill Company had "undertaken to purchase water at 2s 4d per 1,000 gallons and to pay a minimum water charge of £20,000 per annum", and it was suggested that the "Commonwealth should contract to purchase 100,000,000 gallons per annum for the transcontinental railway at Port Augusta at 5s per 1,000 gallons, i.e. £25,000 per annum".

The State saw the Commonwealth contract as a guarantee of financial assistance and accordingly sought to make it a long term one. Negotiations were protracted; the whole scheme at one time being investigated by the Tariff Board in its role as Advisory and Consultative Committee to the Director of Economic Coordination. In July 1940 it was agreed that work on the scheme should commence.

⁷ For tool steels, however, Australia depended on overseas supplies. Wartime consumption was estimated (December 1940) at 2,800 tons tool and die steels, including 400 tons high speed steel. English supplies being delayed, orders were placed in Canada. Local production was being commenced.

These materials were of sufficient importance, however, to be, with aluminium and copper, the subject of regulations (Statutory Rules 1940, No. 107, 13 Jun) regarding stocks held at 21 Jun.

See also D. P. Mellor, *The Role of Science and Industry*, in this series.

local production, and local production of ferro-chrome and ferro-silicon was expected by the end of 1940.

Among non-ferrous metals, zinc, lead and tin, were produced in quantities sufficient for local requirements with a surplus available for export.⁸ Copper, although 20,000 tons was produced in 1939-40, proved insufficient for the augmented munitions programme. In February 1940 the adviser to the Government on non-ferrous metals, Sir Colin Fraser, told the War Cabinet that 5,000 tons of blister copper should be purchased through British control from Africa (2,000 tons for United Kingdom orders on Australia for munitions and 3,000 tons for local orders) "to safeguard continuation of operations including production of telephone cables and other essential supplies". The Cabinet voted the money (£450,000) and indeed much more to the supplies of this vital metal. Of the £4,540,000 authorised by the end of December 1940 for materials supply £1,500,000 was intended for import of copper.

Early efforts were made to diminish the fluctuations in the price of copper to the consumer. The Economic Cabinet endorsed a rise in the price of local copper from £63 17s 6d to £76 a ton. Imported copper cost £82 to £85 a ton. Because it was undesirable to have two prices, a selling price of £78 10s for all copper was fixed in February 1941⁹ and a pool was established, the excess over the previously existing price for home-produced copper being used to offset the losses on sales of imported copper. On 5th May 1941 the fixed price was raised to £86 10s, established companies being paid £85 a ton for normal production and £1 10s going into the pool which provided a bonus of £5 a ton for those producing in excess of the normal.

Nickel stocks were assured by import from New Caledonia to the extent of 5,400 tons and the directorate made arrangements for refining locally. The purchase had an international political aspect. On 26th June the full Cabinet received news of a United Kingdom suggestion, as the result of which the Cabinet decided to approach firms already engaged in the trade with a request to acquire stocks of metals which previously had been exported from New Caledonia to countries now under German occupation.¹ Normal export of such metals to Japan was not to be interfered with. The French representative was accordingly notified that 450 tons a month of nickel matte would be purchased by the Commonwealth but he wished 1,200 tons more to be taken "in order to provide for local taxation".

The representative in question disappeared when the *Notou* was sunk by a German raider and the Australian War Cabinet deferred further decision, first until the Director of Materials Supply could be consulted, and later until the political future of the island had been settled. The

⁸ Tinplate, however, as has been seen, was imported and it was the shortage of this which was to be keenly felt in civilian consumption, especially as the supplies of tinned goods for defence purposes mounted.

⁹ Prices Regulation Order No. 316, 6 Feb 1941.

¹ Full Cabinet Agendum 399. For a full account of Australia's participation in the New Caledonian political crisis see P. Hasluck, *The Government and the People 1939-41*, in this series.

arrangements were finally for 5,400 tons at the rate of 450 tons a month. Of the £4,540,000 authorised by the end of December 1940 for materials £540,000 was allocated to nickel matte from New Caledonia.

The remainder of the £4,540,000 was for a variety of items, but the principal was chemicals for explosives. Of the industrial chemicals, acetone, nitrate of soda, amorphous phosphorus, potash and potassium salts, sulphur and sulphate of ammonia were imported, and there were other materials like chrome ore, magnesium and mica which also had so far come in part or altogether from overseas.

Throughout this period there were tentative moves towards the establishment of local production, some of which have already been noted. Such efforts were to be intensified as time went on, and with tin and aluminium, at least, the negotiations begun before and just after the munitions reorganisation were still proceeding three years later.

At the end of October 1940 the Director-General of Munitions was present at a War Cabinet discussion of raw materials for aircraft production. Steel could be provided in Australia; production of magnesium, so the department had told Tasmanian representatives, was not economical in Australia because of the small quantities;² production of aluminium from the ingot stage would be satisfactory in 1941, that is after delivery of necessary plant from the United States. Casting had been accomplished and a forging plant was to be established as an annexe to the Australian Aluminium Company's works at Granville, New South Wales.³ But this production depended upon the import of aluminium in the ingot stage; reserve stocks could not be built up because of world demand, and it was therefore desirable to lay in stocks of bauxite and establish a plant for the manufacture of aluminium ingots. At the request of the United Kingdom in October 1940 import of aluminium for non-essential purposes—which meant especially domestic utensils—was tackled through import licensing procedure.

American aluminium interests desired assurance that the establishment of the industry was vital to defence before they would assist; and, said the Director-General, it would be necessary to import stocks of bauxite because Australian deposits were either small or of poor quality. The cost of establishing a manufacturing plant of 2,000 ton capacity was estimated at £1,000,000 and would take eighteen months to get into production.

The Cabinet deferred this question of establishing local production, and in January 1941 the proposals of the Australian Aluminium Company

² But on 12 Jun 1940 the War Cabinet was told (Director-General's Report No. 1) that the Broken Hill Company had undertaken to proceed with the installation of a plant for the manufacture of magnesium in Australia. The company possessed large deposits of high-grade magnesite and was already calcining this material for the manufacture of refractories. (For some years proposals had been under consideration in Tasmania for producing magnesium from dolomite, but had not been put into operation.) (Munitions Digest, Dec 1940, Appendix I, p. 8.)

By August 1941 ingots were being produced, the nominal capacity of the plant being 600 tons, but time would be needed to achieve that rate of production, if it was required. (Munitions Digest, Aug 1941, p. 102.)

³ In the event, extruding was begun in Aug 1941 and forging in Sep 1941. Land for the factory had been bought in Feb 1939, and the first operation of the fabrication division—remelting—began in Sep 1940.

for the erection of a plant were before it, together with the recommendations of the Director of Materials Supply. Conclusions were that

- a. Before the beginning of 1943, the earliest date at which plant could be erected and be producing in Australia, there would be ample ingot aluminium available for purchase by Australia from Canada, United States and India.⁴
- b. The question of Australia obtaining and landing her requirements of ingot aluminium during 1941, 1942 and 1943 and thereafter was one of ocean transport which in turn depended upon Britain holding command of the seas.

Recommendations were that

1. aluminium requirements be imported rather than embark on a very expensive plant construction programme which would make a call for labour, materials and for supervisors badly needed for other essential work;
2. that 2,000 to 3,000 tons of ingot aluminium be imported immediately to be held as security stock, current requirements being imported in addition month by month, the Australian Minister in Washington being requested to make representations to the United States Government if this were found necessary.

A representative who was proceeding to the United States was to confer with appropriate authorities and to report on the possibility of acquiring the required quantities of aluminium ingot, and to investigate the whole production position in America and India. Until this information was available the Cabinet again deferred the question of establishing local production.

Despite the optimistic note in references to importation of aluminium ingots, the War Cabinet was told on 22nd January 1941 that requirements, promised from America, had not been forthcoming and advice had been received in the last few days that the quantity necessary to complete the 1940 quota was only now being shipped from the United States. The Cabinet wondered, in view of the department's 1940 experience, whether statements about ability to supply requirements in 1941 and 1942 could be relied upon. The agenda on the manufacture of aluminium in Australia, it was suggested, should be resubmitted for further consideration (more especially when the Director-General could be present, for he was in favour of local production) in view of the importance of guaranteeing wartime requirements, and the extensive use which, on present indications, would be made of aluminium in post-war commercial development in Australia.

While the Prime Minister was in England the War Cabinet, as the result of further deliberations,⁵ appointed a committee to investigate Australian bauxite and copper resources, at the same time telegraphing to him, and to the Minister in Washington, the Australian Government's anxiety

⁴ The War Cabinet had before it an extract from the New York *Herald*, 29 Nov 1940, which reported that the "Defence Board and industry had worked out a plan to double the output, and had assured Roosevelt that there would be no shortage of aluminium for airplane construction with the British programme superimposed". (War Cabinet Agendum 20/1941.)

⁵ In the intervening period an exchange with the Australian High Commissioner in the United Kingdom had revealed that the aluminium position there was bad and that as Australia's order for 2,000-3,000 tons from Canada was for reserves "this is not as urgent as increasing the supply to the United Kingdom". The Australians replied that though they appreciated the United Kingdom position, the ingot ordered for Australia was not for reserves but to meet urgent defence and aircraft requirements. (War Cabinet Agendum 20/1941 Supplement 1.)

about shortage of aluminium, and seeking assurance that the 2,000 tons a year required would be made available. The Minister for Munitions was to bring proposals for the manufacture of aluminium in Australia to the War Cabinet for further consideration.

From this point negotiations appear to have been conducted on the basis that the Cabinet had "provisionally decided upon the manufacture of aluminium in Australia".⁶ The Department of Supply and Development made provisional arrangements for an order to be placed for 25,000 tons of bauxite from British Malaya.⁷ But, continued the submission, it was highly improbable that production would begin before the middle of 1943, and the War Cabinet, by now much alive to the country's growing difficulties in the provision of manpower, materials and plant, decided that the Minister for Munitions should submit a report on these aspects as soon as possible.

The way ahead was not simple. An organisation in Australia put forward its claims to being "given an opportunity to cooperate with the Government for a coordinated effort to produce the metal in Australia", and pointed to having "developed sulphate processes for the production of pure alumina past the pilot plant stage successfully". Moreover the Montreal company with whom negotiations had been opened for the supply of aluminium in the period until production could commence had indicated to the Australian representative that they thought Australian proposals unfair, more especially the financial arrangements.⁸

The War Cabinet's preference for local manufacture appeared to be strengthened, but that body reiterated the need for assurance that "doing so will not interfere with Australia's war effort, either in manpower or material".⁹ Discussions shifted from the War Cabinet to the full Cabinet in June 1941 and there the policy to proceed with manufacture of ingots was confirmed. But the problems of just how to implement the policy remained, and became part of the concerted attempts in the last part of 1941 to assess realistically the war effort of the country against its commitments.

SUPPLIES FOR OVERSEAS

The possibility of sending equipment overseas was not actively considered in the first months of 1939 except for the continuation of the pre-war supply of small arms to New Zealand, and those negotiations for

⁶ The phrase is from Supplement 2 War Cabinet Agendum 20/1941, 3 Apr 1941. The Director-General's memorandum to the Cabinet (*ibid*) says forthrightly "On 1st March, on the assumption that we would produce aluminium in Australia we opened negotiations with the Canadian Company . . . for supplies from Canada in the interim period" (i.e. until production should begin).

⁷ Up to 1942 at least, the project was pursued jointly by the Supply and Munitions Departments. In Sep 1942 it was agreed that Supply would be responsible for production of ingot; fabrication would be under Munitions.

The price of the bauxite was 30/- a ton and the decision was that the order could be confirmed irrespective of any decision that might be reached in regard to the manufacture of aluminium in Australia.

⁸ The Australians had asked for 2,250 to 3,000 tons in 1942; 2,750 to 3,750 in 1943; and for an amount not above 4,000 tons in 1944; at current Canadian prices when supplied. The company, it was contended, would require to spend the equivalent of \$2,500,000 and suggested that Australia should agree to a firm six-year contract or provide the \$2,500,000 dollars needed on loan for twenty years on similar lines to the arrangement between the United Kingdom Government and the company.

⁹ War Cabinet Minute 985, 28 Apr 1941.

supply to England of small arms ammunition and gun ammunition which have already been mentioned. In November the Australian militia forces were considered sufficiently weak in equipment for the full Cabinet to decide that "Government is averse to shipment of artillery or any other material needed for the maintenance of the Militia Forces unless it is capable of rapid replacement".¹ Moreover 16 18-pounders, 8 4.5 howitzers and 256 Lewis guns were regarded as the "maximum equipment of this class" that could be sent with the first contingent of the A.I.F. and it was to "be returned to Australia as soon as it could be replaced overseas by the United Kingdom".² And in general the principle was accepted that Australian forces in the Middle East would be equipped from other sources as well as Australia.

By May 1940, however, when the War Cabinet discussed the international situation and the country's war effort, the Defence Committee was to have regard to requests for supplies for the United Kingdom and New Zealand; and the Controller-General of Munitions Supply was to include, as well as these countries, orders for India, in reporting on the practicability of accelerating delivery of other types of munitions than small arms ammunition. Following the diversion of ammunition from Australian to United Kingdom orders, on 26th June eight 3.7 anti-aircraft guns (the first produced) were to go to the United Kingdom.³

Thus when the reorganisation of munitions took place the principle that Australia should bend her efforts not only to supply her own needs (the principle of self-sufficiency adopted at the 1937 Imperial Conference) but should send equipment to the United Kingdom, New Zealand and India was already established. The extension of munitions production was planned partly with these additional markets in view.⁴

This development received considerable emphasis, and acquired less haphazard form in the last quarter of 1940 when, at the instigation of the United Kingdom, Australia sent a delegation to an Eastern Group Supply Conference at New Delhi, India. The Netherlands East Indies, an invited observer, had already approached Australia for supplies.

The political significance of the venture is discussed elsewhere,⁵ but points of economic policy are noted here. In his instructions to the leader

¹ Full Cabinet (War Cabinet) Minute 10, 28 Nov 1939.

² War Cabinet Minute 104, 22 Dec 1939. War Cabinet Minute 182, 27 Feb 1940 recorded that 82 guns were to be retained for use as anti-aircraft armament until the War Office could conveniently replace them.

³ But without predictors; and the vital importance to Australian local defence of the delivery of predictors (from overseas) was to be stressed.

⁴ The visit of the New Zealand Minister for Supply in July 1940 was the occasion for establishing the fullest cooperation between the two countries. While not ranking "pari passu with Australia" in the matter of priority, as New Zealand requested, the War Cabinet approved assistance "to the fullest practicable extent". Items to be supplied included s.a.a. (5,000,000 rounds); rifles (20,000 and a prospective order for a further 20,000); barrels (10,000); Vickers (200). A special feature was the export of components for 30,000,000 rounds s.a.a. for assembly in New Zealand. The same method was adopted for Bren gun carriers. Because Bren gun production was not expected to commence until the end of 1940 at the earliest this item was deferred. 64 complete Vickers machine-guns had gone to New Zealand in 1936-37 and thereafter shipments of components of this weapon and of rifles, up to the outbreak of war, totalled 2,691 Vickers, 2,717 rifles and 3,100 barrels.

Ammunition components and explosives stores were sent in small quantities between 1932 and 1937 and thereafter in far greater quantities and variety.

⁵ See P. Hasluck, *The Government and the People 1939-41* in this series.

of the delegation, Sir Walter Massy-Greene,⁶ later confirmed by the War Cabinet, the Prime Minister said:

... any policy of dependence on India is not acceptable to the Commonwealth Government in view of the Imperial Conference principles of ... development of self-sufficiency in the production of munitions. ...

Our policy might be summarised as production up to the maximum capacity of the things that we can produce and having provided for our own needs first we would be willing to become exporters of the balance. We are not prepared to be importers of the things we can produce. As to the relation of our tariff policy there is no intention of entering into commitments which might cramp the development and expansion of our secondary industries.

On cotton textiles "nothing should be done to weaken the protectionist policy relating to this developing industry". The Government, however, readily accepted the rational view that the A.I.F. in the Middle East, for instance, should get cotton fabrics from India and so save shipping space, just as, in the case of steel, where raw material was being exported from Australia, fabricated in the United Kingdom and supplied to countries which could be supplied more readily with the manufactured goods from Australia, a change of policy would ease shipping difficulties.⁷ The brief which was prepared for the delegation set out the general production programme for munitions which would

go far towards absorbing manufacturing capacity in Australia available and contemplated until December 1941. In certain well-established lines, for instance, Vickers machine guns or empty shell, still greater efforts may be made. These possibilities can be discussed only on specific enquiry. There would be reluctance to depart from the Australian policy of a balanced programme of production unless it was clear that any extras to be manufactured would not affect the balance either in the production of munitions or of accessories such as machine tools, gauges etc.

After December 1941 there should be a pronounced surplus of production unless the position should be changed by the raising of more Australian formations for overseas or by a pronounced change in the military situation in Australia.⁸

In clothing materials there were deficiencies in Australia's defence requirements for cotton piece goods, but in woollen materials, on the other hand, surpluses were available for other countries. Surplus knitted goods were

⁶ Sir Walter Massy-Greene, KCMG, MHR 1910-23; Senator 1923-38; Min for Trade and Customs 1919-21, Defence and Health 1921-23; Asst Treasurer 1932-33. B. Wimbledon, Eng, 6 Nov 1874. Died 16 Nov 1952.

⁷ War Cabinet Minute 565, 17 Oct 1940. Baldly stated these views might appear selfish; they were. But they were not restricted to Australians. Sir Alexander Roger, leader of the British Supply Mission to India, when he later visited Australia (War Cabinet Minute 997, 29 Apr 1941), commenting on the Supply Department and the Board of Trade, asserted that the former should be kept separate from the board. The board was too greatly concerned at present with the effect of any proposition put forward on United Kingdom post-war commercial activities. This, he said, should be subordinated to a complete war effort.

The practical politics of persuading private enterprise to either forego advantages, or see established advantages imperilled, takes one into fields beyond the scope of the present work.

⁸ Memorandum No. 1, p. 1. Already surplus empty 18-pounder shells were being sent to the United Kingdom, as well as empty 3-inch mortar bombs. The one represented "the surplus capacity for production of empty shell pending completion of the new cordite annexe in six months' time"; the other "the surplus production of empty bombs to fuses at the present time. By December 1940 the output of fuses will be considerably increased". (War Cabinet Agendum 204/1940, 13 Sep 1940.)

War Cabinet would not approve the resumption of deliveries of rifles; army surplus after allowing delivery of 10,000 to New Zealand was 45,900 of which 20,000 required reconditioning. A report was to be furnished as to the reason "for numerous complaints received by the Minister regarding the shortage of rifles for training purposes in A.I.F. camps" (War Cabinet Minute 551, 16 Sep 1940).

also available.⁹ There were shortages of jute, cotton, rubber, tinplate, industrial chemicals, tanning materials, dyestuffs, surgical instruments and dental materials.

The Eastern Group Supply Council was established as a result of the conference and had as its vital corresponding military organisation the Central Provisions Office.¹ The two began work in July 1941, but for many reasons the machinery was very slow in gathering momentum. The intention was that the Central Provisions Office should coordinate demands for certain agreed items and the Eastern Group Supply Council seek to arrange supplies from the participating countries. Making this scheme work proved difficult. Forecasts of supply needs were not easy; terminology and specifications differed among the countries and this led to confusion; the Indian organisation was a target for criticism in that its procedures, terminology and information were unintelligible to Australian officials.

Less easily remedied were the defects of transport and storage within India, where it was intended to hold stocks for the council; difficulties were predicted because accounting procedure was unsatisfactory.² Participating countries added complications by seeking supplies from one another directly instead of through the council—Australia was an offender in respect of textiles. Some improvement had been effected by 1942, although by that time the primary purpose of the council was being pursued by inter-Allied organisations at a higher level.

THE UNEQUIVOCAL DEMANDS OF 1941

Within Australia manufacturers generally—especially the suppliers of items other than munitions—were enthusiastic about the orders which could accrue from membership of the new council.³ The Australian munitions programme, as presented to the October conference, is represented in the accompanying table. Munitions production to be undertaken by Australia on account of the Eastern Group Supply Council had been set at: 100,000 rifles, 600 guns and mountings, 100,000,000 rounds small arms ammunition, 1,000,000 rounds gun ammunition and 360,000 bombs. Capital cost to give effect to the Conference recommendations was estimated to be £4,000,000.⁴

⁹ The Australians were anxious that orders should be placed for articles "in as finished form as possible", for example, "for clothing rather than for cloth, for cloth rather than for yarn, and for yarn rather than for tops. The object being to maintain a normal balance between all sections of an industry". (Confidential Report on E.G.S.C., full Cabinet Agendum 644, 24 Apr 1941.)

War Cabinet (Minute 919, 1 Apr 1941) approved the Minister's disinclination to supply immediately an order for 250,000 lbs wool yarn because it would cause a dislocation to local industries; overseas demand was to "be met as far as possible by a gradual expansion of local output so that the effect would not be detrimental to local industry".

¹ A local provision office in Australia, with representatives of the Departments of Army, Air and Supply, was to be established (War Cabinet Minute 1173, 9 Jul 1941).

² Some transactions were still unsettled in 1949.

³ The Australian representative on the council, Sir Bertram Stevens, addressing manufacturers before his departure to India in February 1941, said "opportunities which are presented are dazzling". Since its inception £3,000,000 worth of orders had reached Australia. (*Manufacturers Bulletin*, 1 Mar 1941.)

⁴ War Cabinet Minute 777, 12 Feb 1941. It was suggested that the United Kingdom might finance these proposals, but no claim was ever made for the £4,000,000.

It was in this minute that the Treasurer, expressing the view that the "whole munitions programme was in need of revision" recommended the committee—the "Pearce Committee"—to report on it. See also P. Hasluck, *The Government and the People 1939-41*, in this series.

Group	Production objective per annum	General Production Programme			
		Existing capacity per annum		Projected capacity per annum	
		C'wealth Govt. factories	Other establish- ments	C'wealth Govt. factories	Other establish- ments
Ammunition Com- plete Rounds:					
S.A.A.	420,000,000	350,000,000	Nil	420,000,000	Nil
Filled Gun Amm.	9,500,000	1,500,000		9,500,000	
Ammunition Com- ponents:					
Cart. Cases	7,000,000	1,100,000		7,000,000	
Fuses	9,500,000	850,000	650,000	2,150,000	7,350,000
Shell	9,500,000	500,000	1,000,000	500,000	9,000,000
Explosives:					
Cordite tons	10,000	1,250	1,250	7,750	2,250
T.N.T. tons	9,000	600	2,000	7,000	2,000
Carbamite	600	Nil	Nil	Nil	600
Ordnance:					
A.A. guns	300	150	Nil	150	150
4" Mark XVI guns (naval)	24	Nil	Nil	24	Nil
25-pdr equipment	840	Nil	Nil	520	320
2-pdr anti-tank guns	1,500	Nil	Nil	Nil	1,500
Small Arms:					
Bren guns	6,000	Nil	Nil	6,000	Nil
Vickers guns	3,000	2,000	Nil	3,000	Nil
Rifles No. 1 Mark 1	100,000	40,000	Nil	60,000	Nil
Bombs:					
Aircraft	240,000		2,900	52,000	159,000
Mortar	1,600,000		700,000		900,000
Depth Charges	10,000	5,000		10,000	
Mines:					
Contact Anti-tank	260,000		145,000		260,000
Naval	3,000		1,500		3,000
Carriers Universal	2,000				2,000
Tanks 12 tons	1,000				1,000

The Director-General was of opinion that recommendations of the Eastern Group Conference could be undertaken without unduly straining the ultimate resources of Australia, but that, with the inclusion in the general munitions production programme, the maximum capacity would be within reach. Forewarned by his Controller-General who had been a member of the delegation, Lewis pointed out that the recommendations "allocated to Australia production of certain types of munitions . . . in excess of the production being organised to meet local defence requirements". Then in the course of planning certain additional productive capacity, he pointed out "it is important that I should know in respect of the Eastern Group Supply Council how much additional is to be provided. . . . With the exception of the small arms ammunition factory which probably would be located in an inland town in Victoria it would be my idea that the remainder of the items would be dealt with by expansion of existing projects principally in New South Wales and South Australia . . . which would promote economy in construction in plant and in staff . . .".⁵

Action had already been taken by the Department of Munitions to provide increased manufacturing capacity for the annual production of 100,000 rifles and 100,000,000 rounds of small arms ammunition at an estimated cost of £750,000 and £300,000 respectively.⁶

Meantime, however, despite these ambitious and confident plans for the future the position in Australia was not entirely satisfactory. In rifles, at least, there was said to be a deficiency of 40,000 for army requirements, and of 40,000 and 4,500 respectively for the Returned Soldiers' Volunteer Corps and the air force. The War Cabinet decided against any further deliveries overseas at least until April 1941, while direct supply was to continue only to New Zealand. Until the Eastern Group Supply Council machinery was in operation all surplus was to be offered to the United Kingdom (an arrangement suggested by the War Office and the Ministry of Supply) and countries such as Burma etc. would place demands on the War Office.⁷ The production of small arms ammunition was more encouraging. Stocks which had been 75,000,000 rounds in July 1940 were by now built up to 108,000,000 rounds, with the production being further increased, and larger deliveries to the United Kingdom, New Zealand and the Netherlands East Indies were therefore approved.⁸

There was, however, a lack of explosives, a fact which gave rise to some concern in the War Cabinet on the occasion of the Pearce Committee's report. There was, too, "disparity between the present production figures and those given to the Prime Minister" (he was then in London) and the explanation given (that "the statement furnished to the Prime

⁵ War Cabinet Agendum 63/1941. Letter from Director-General, 26 Jan 1941.

⁶ Capacity was to be extended to 4,000 rifles a week (i.e. 200,000 a year or double the capacity shown in the brief).

⁷ Even the deliveries to New Zealand were stopped at the end of April (War Cabinet Minute 970, 28 Apr 1941).

⁸ A factory at Rocklea (Brisbane, Queensland) for cartridge cases (available if necessary for small arms ammunition production) had been authorised on 16 Jan 1941.

Minister was prepared in November-December 1940 and is about to be revised, also that such statement was based on individual components rather than upon completed rounds"⁹) emphasised the deficiency in supplies of explosives.¹ The problem which the Director-General had seen in June 1940 and with which he had grappled straightway, was not solved—the problem of balanced production. He himself, when speaking to the Advisory War Council on 1st May 1941, selected the deficiency in explosives as “the major cause of failure to reach production schedule”.

The original plans, he said, had been laid for a balanced production to be eventually achieved but at the present time it was not a balanced programme largely as a result of delivery of machine tools and other equipment from overseas not being made as promised due to such causes as enemy action and failure of overseas suppliers to meet their obligations. Serious consideration should therefore be given to the immediate needs with a view to priority of production being given to the items of the greatest importance. . . .²

Back in September 1940 the priorities “observed broadly” in the development of new manufacturing capacity had been:

Navy	Army	Air Force
2-pounder ammunition	Bren machine-guns	small arms ammunition
smoke floats	small arms ammunition	armour-piercing bomb
mines	2-pounder guns	pyrotechnics
	3.7-inch ammunition	

and on these the department had commented:

- (a) All the items are being pushed on concurrently, but progress is regulated by the supply of machine tools and gauges, to which a first priority must be given. In the distribution of machine tools and gauges priority is given to Bren machine-guns and small arms ammunition and then to 2-pounder guns the remainder following concurrently.
- (b) As between the Services no priority is being given to one Service over another, an attempt instead being made to meet the requirements of all the Services concurrently. In practice certain priorities arise, not by design, but because of technical considerations. Land pattern Vickers guns have priority over air pattern guns because at the time the batch was started the orders on hand for air pattern guns were approaching completion and there were orders on hand for land pattern guns. It happens therefore that the respective types are alternating.³

⁹ War Cabinet Agendum 63/1941, Supplement 1, 23 Apr 1941. For example, to the Prime Minister the figure had been 1,500,000 rounds representing empty shell for the quarter ended December; the present schedule gave 350,000 rounds for the same period representing complete shell.

¹ After the first four reports of the Director-General to the War Cabinet, No. 5, for November 1940, set the pattern for subsequent monthly submissions. Production statements, however, did not include filled gun ammunition, so that the results, good or bad, for such items reflected only the components, not the finished piece ready for firing. It was not within the competence of the Cabinet to relate the production schedule of the explosives factory to that of the items from the ammunition factories and from annexes and industry.

War Cabinet Minute 10 Jun 1941, which considered the weekly Chiefs of Staff reports, recorded that the Chief of the General Staff took the view “that the present form of the statement indicating delivery of the various ammunition components was not altogether satisfactory and he proposed to have future statements prepared to show delivery of complete rounds of shell and other ammunition”.

The Prime Minister suggested graphs and informed Cabinet of “steps taken to establish a statistical section in Defence Coordination on lines of the United Kingdom organisation in which major production trends and other important data relating to the war effort will be recorded by statistical methods”.

² Advisory War Council Minute 312, 1 May 1941.

³ War Cabinet Minute 529, 24 Sep 1940.

The British Commander-in-Chief in the Far East, Sir Robert Brooke-Popham, reporting on Malaya to the Australian War Cabinet in February 1941, said the urgent necessity was for Australia to press on in every possible way with the local manufacture of munitions, and named the outstanding requirements, in order of priority, as 3-inch mortars, 3-inch mortar ammunition, .303 ammunition and Bren guns.⁴

Four days later the Naval Board's suggestion that naval armament stores—particularly mines and depth charges—should be given equal priority with Bren guns was before the War Cabinet. To this last the Department of Munitions offered no comment; "the facts of priority . . . are for War Cabinet to decide", but the department pointed out "that even though a particular priority be ordered there are technical difficulties in relation to some items", and instanced forgings for which capacity in Australia was "very limited". It was therefore necessary to decide which of the items—mines, Bren guns, 3-inch mortars, 2-pounder guns or rifles—were the most important in respect of forgings. Other difficulties, such as the lack of T.N.T., failures in proof with detonators for 3-inch mortar bombs, were quoted, but all pointed to the one general difficulty, achieving a balanced programme of production.⁵

Some of these criticisms were wide of the mark in that they showed little awareness of the technical demands of mass production and especially of the time required for components separately manufactured to be combined in a steady flow of finished items. It was true too that the Services were not always able to give firm guidance about what they needed and were not fully conscious of the implications for a mass production programme of short-term changes in demand. On the other hand, with unlimited time any production programme can be made self-consistent, and what was agitating the critics was their sense of time running alarmingly short and of deficiencies in supply which might not have been predictable, but which might, in the event, have been critical.

Priorities bothered the committee whose report was before the War Cabinet on 30th April, and they apportioned the blame by stating that the difficulties reported "on the review and consolidation of the munitions programme could have been largely avoided had the Army and Munitions Coordinating Committee carried out fully the functions assigned to it".⁶

⁴ Indicative of the confusion in framing production policy in the light of strategical or military indecisions or change was the fact that in June 1941 discussion of the defence position in the Pacific after the Prime Minister's return pointed out that while a submission before the War Cabinet indicated that there was no deficiency in 3-inch mortars, this was based on two per battalion, while the revised scale was six.

Brooke-Popham's advice to "press on" with local manufacture of 3-inch mortars was recalled by Ministers. The 3-inch mortars, "while good for tropic warfare . . . were of little use in Australia", and had been given a low order of priority. (Advisory War Council Minute 312, 1 May 1941, when Lewis discussed the munitions programme.)

⁵ Nor did it help the general problem to find doubts expressed (by the Acting Prime Minister) whether the requirements on which the Department of Munitions was planning future production were being based by the two Services—army and air—on similar scales of attack. (War Cabinet Minute 910, 22 Mar 1941.)

A similar query made on 15 May 1941 (War Cabinet Minute 1079) concerned the relative requirements of army ammunition and aircraft bombs.

⁶ Its functions had been:

(a) To appraise requirements of the Department of the Army as presented to the committee

In fact, the coordinating committee had confined its attention to technical questions, and then only with two directorates—Ordnance Production and Gun Ammunition—and for one Service only—the army. Despite the report the general opinion was that even if the coordinating committee had concentrated on army matters only, as constituted it could hardly have done more; and in any case the Defence Committee was the only body likely to be accepted in deciding on priorities between the Services.

Meantime, following up the question of priority of naval armaments, the War Cabinet decided that a Priorities Committee, as a standing sub-committee of the Defence Committee, should be established to deal with inter-Service priorities, and priorities to be observed concerning overseas orders.

The anxieties of the time were great;⁷ the attempts to organise production on an area basis (the Eastern Group Supply Council) had had their parallel, later, in conferences on strategy at Singapore; and in the visit to Australia of the British commander in the Far East and his talks with the Australian executive. Deficiencies which had been revealed in army equipment added their emphasis to the need for improved production. The Advisory War Council expressed the opinion "that such serious shortages called for the full-time employment of every able-bodied man in the community . . ." and sought an enquiry into "resources of idle or partially employed manpower" and the "practicability of using for the manufacture of munitions equipment establishments which are not now" so engaged.

The answer, so far as munitions was concerned, lay partly in time; time to bring to fruition the plans which had been so far begun.⁸ But it was also becoming clear that certain fundamental problems, so far ignored, or at best only half-heartedly approached, would have to be overcome: the problems of suitable and sufficient labour, or more generally, the restriction of non-essential production. Already the need to tap additional labour supplies had influenced decisions. At different times there had been various interests pressing for decentralisation of munitions manufacture,

in the form of "forecast of requirements" and Australian capacity to meet requirements.

- (b) To revise the army munitions programme where necessary to get balance in general production.
- (c) To examine and determine necessity for introduction of new equipments in relation to their uses.
- (d) To approve conversion of such forecasted requirements into munitions orders.
- (e) To determine necessity and advisability of the introduction of major modifications affecting the manufacture.
- (f) Review production implications of new or altered specifications of munitions requirements and . . . to examine new inventions already accepted by the Inventions Board.

These were approved "within the limits of the programme approved by War Cabinet and subject to proposals for major revisions or the introduction of new types of equipment being submitted for approval by War Cabinet". (War Cabinet Agendum 208/1940; Minute 535, 24 Sep 1940.)

⁷ See P. Hasluck, *The Government and the People 1939-41* in this series, for a description of, for example, the "scare" of February 1941. Losses of equipment in Greece added to the anxieties of the Australian Government.

⁸ The Director-General told the Advisory War Council (1 May 1941) "The present Maribyrnong production of cordite was 1,600 tons per annum while the Albion [Deer Park] factory in production in the next two weeks would increase production to 2,000 tons per annum. Eventually production at Albion would be 2,650 tons but this would not be achieved until the gun cotton factory at Ballarat was finished and the second factory at Albion was completed. When the Adelaide factory came into production it would make 4,000 tons additional and a New South Wales factory which was now being planned would produce a further 2,500 tons." In the event Ballarat began production in September 1941; Adelaide [Salisbury] in November 1941; the New South Wales [St Mary's] in December 1942.

and in any case the theory as applying to munitions manufacture was well known to Jensen, and endorsed by Lewis. However it was at this point that decentralisation emerged as an active part of munitions policy. The Director-General proposed the erection of "half factories", that is "units to produce 55,000,000 rounds of small arms ammunition annually as compared with the 100,000,000 and 120,000,000 factories already existing and authorised . . . which would employ 600-700 persons of which four-fifths would be female". These he suggested for Western Australia and Tasmania.⁹

The larger problem, however, the restriction of non-essential production had still to be tackled; although it had by this time reached the point where it was being vigorously and vehemently asserted by ministers; in the words of the acting Prime Minister "One thing stands out clearly—*the time has arrived when we must face up to restriction of civil consumption.*"¹

⁹ War Cabinet Minutes 955, 9 Apr, 1049, 9 May 1941. On 19 Jun, however, after review it was decided to give Tasmania the task of cartridge cases for 2-pounder anti-tank ammunition and 40 mm (Bofors) ammunition and to put the proposed Tasmanian s.a.a. capacity into the Perth factory (that is, making it a "full" size). Derwent Park (Tasmania) and Welshpool (Western Australia) began production in Jun 1942.

By Sep 1941 the idea had been taken further to include fuse and shell manufacturing units in certain towns. Those so far approved were Broken Hill, Goulburn, Wagga, Albury (fuse); Tamworth (primer).

¹ Notes provided for War Cabinet Agendum 63/1941, Supplement 2, April 1941.

CHAPTER 10

THE FIRST EIGHTEEN MONTHS

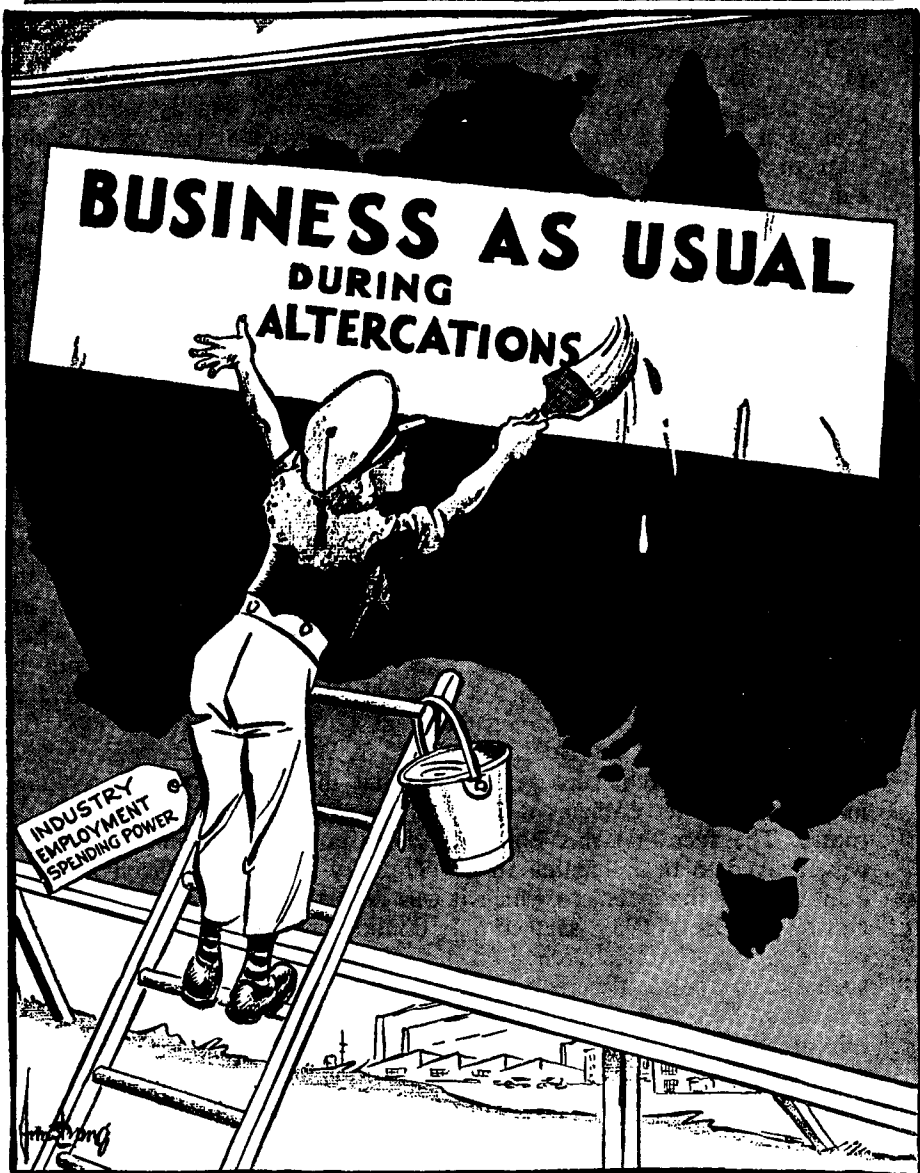
FOLLOWING the plan of this volume, the chapters thus far presented have described separate sections of the Australian war effort, with only incidental regard to the way in which each section impinged on others in theory or in fact. It is necessary, however, now to seek to see the effort as a whole, to discover what unity the "war economy" had attained, and as well to examine in some detail the problem of coordination which was implicit not merely in the theoretical implications of that phrase but in the practical and sectional problems of this or that aspect of government policy as it had developed to about the end of 1940.

The outbreak of hostilities found the Australian economy far from ready for the grim realities of war, although, as they at first became clear it seemed that, remote as they were from expectations, what was needed had been at least started. War when it came was distant; Japan was not, after all, an enemy. Whatever might be hidden in the future, there was time to complete what had been left undone or unfinished.

Judged against programmes of pre-war planning, the economy was unprepared. The National Register returns had been collected but were still unanalysed; not for months would there be a flow of usable data to measure needs and resources and guide action; beyond the first step of "manpower officers" under the Manpower Committee, there was no manpower organisation. Aircraft production was still in the elementary stage as was munitions. There were the conspicuous War Book gaps indicating that even planning had not reached definitive paper form. No war budget existed, although some broad principles might have been ready for application; in the event a peace budget designed for peacetime commitments had to serve, and clarity of thinking on finance proved hard and slow of attainment.

These are surface indications of unpreparedness, but what emerged all too clearly was that the country was itself unprepared in attitudes of mind. In the last days of pre-belligerency a distinguished radio commentator was assuring the Australian public that "the door is not yet closed to negotiation", while for months the fashion was to discuss political issues of the war in terms of the distinction, which hostilities had robbed of all present meaning, between Hitler and the German people. This is not the place to analyse this state of mind, except in so far as it was reflected in thinking about wartime economic problems. The vigour with which pre-war plans for export contracts were pursued was matched by the enthusiasm with which they were implemented, and by the persistent pressure for oversea sales of wheat, fruit and the like, and for ships to carry them. Wartime policies were discussed constantly in terms of their effect on employment, as if the country had a depression economy instead of a war economy. Modest tax increases were received as if they imposed disas-

CARRY ON, AUSTRALIA!



Armstrong in Argus (Melbourne), 5 Sep 1939.

trous burdens. "Business as usual" was too recently associated with another war to be an acceptable slogan, but it represented fairly enough the general atmosphere of the Australian economy in the early months.

The importance of public attitudes in conditioning wartime economic planning needs to be stressed. Ideally, no doubt, it would have been a good thing if the Australian public had understood exactly what a full-scale war economy would involve, and why particular courses of action were or would be necessary. Failing that state of perfection it would have sufficed if there had been public acceptance of the ends to be pursued and a belief that the action proposed in any case would achieve the end. Such a belief need rest on nothing more than emotional response to a sense of urgent need or faith in a leader. Neither was present in September 1939. Australians accepted with only isolated questioning Mr Menzies' constitutional formula for announcing that war had begun, with its implication that Australia was automatically involved, but this did not carry with it a sense of acute and immediate personal crisis. Nor, whatever may have been the explanation, was Menzies able to capture public assent for comprehensive recasting of the economy.

It was symptomatic of uncertainty and confusion that the first few months of war saw a rash of books and pamphlets on war economics which did not, and could not, have much effect in those early days. That kind of education, when it is not addressed to specific and concrete issues of the moment, takes many months to do its work. The pamphlets which expounded general principles were not easily applied to a situation in which the impact of war on the Australian economy remained to be felt, and the Government was not able to tell Australians convincingly what had to be done and how it could be done so that Australia might take a positive initiative as a belligerent. Books such as E. R. Walker's *Wartime Economics* presented a comprehensive picture of what the Australian war economy might be, but the problems it analysed seemed remote possibilities in the future. The fact that this book, excellent popular economics though it was, proved to be influential in the Treasury and other official places is a measure of the extent to which it was addressed to issues which, in the closing months of 1939, seemed only doubtfully relevant. As those months of the "phoney" war stretched on, it seemed confirmed that the problems such books analysed were not Australia's; those months confirmed first reactions, that this would be, for Australia, like the other war, and reinforced attitudes which were a dominant factor in the apparent ineffectualness and lack of purpose in economic policy in the next year.

The plunge into war for which preparations and a special thinking were still incomplete, was marked by three superficially contradictory trends in policy. First, in some fields it proved deceptively easy to formulate and inaugurate policies and instruments of control. This happened in those cases where the problems were, or were believed to be, essentially those of the 1914-18 war, or where there was a clear and decisive lead from Britain. Thus, there was the institution of the "obvious" controls over prices and over foreign exchange transactions. The formal machinery

for price control, though it would have been inadequate in its techniques and principles to restrain a major upsurge in prices, and could not have exercised a seriously restrictive effect unless buttressed by other controls which were much later in coming, was adopted promptly. It was dominated by ideas of fairness and the prevention of profiteering, emotional reactions which had political importance, but little other direct relevance to the economic problems of an embryo war economy. Within its limited objectives in the first two years, price control was to operate reasonably well; but it did so as much because serious problems of relating a system of controlled prices with other forms of control were not presented until the scale of the war effort had progressed much further.

The full-scale machinery of exchange control was new to Australia, but the need for it was taken for granted in responsible quarters; there were clear leads from Britain through the Bank of England, and there was a wealth of experience in European expedients of the 'thirties to be drawn upon. Hence, except in the vital respect of restriction of imports, exchange control began smoothly and worked easily. At bottom the explanation was that apart from import restriction, the machinery for control was designed to prevent war-induced types of transactions, and the machinery was there before Australians had time to embark upon the practices which the control was designed to restrict. Import restriction was, in this early stage, primarily a foreign exchange problem and especially a dollar problem rather than a question of the physical availability of imports or of the shipping to bring them. It represented, as for example the prevention of capital export did not, a threat to established business interests and settled ways of consumption, and here acceptance of the need for control was slow, and the achievement of restriction long drawn out.

The principal war negotiations for dealing in major exports have been broadly traced and their dependence upon experience of 1914-18 and the more recent expression of British policy, has been emphasised. What remained when war came was to fill in the final terms and to get on with the job of shipping the goods. Bargaining on both sides about prices was at times stiff, and the Australian negotiators, seeking to do their best for commodities like wheat, at times pressed the Australian case to the very limits. That was to be one of the central problems for months to come: the understandable desire of Australian producers to maintain their pre-war exports and to look to Britain either to take what she had previously taken or to replace other buyers who were no longer in the market. In the extreme example of apples and pears was to be seen the failure of pre-war thinking really to contemplate how to deal with an industry depending mainly on exports when war destroyed most of its market.

The 1937 Imperial Conference, as has been seen, had given very clear direction in relation to munitions production and especially had implied a blessing for nascent aircraft production. Modest expansion was adopted, therefore, without serious contention; the difficulties of its achievement proved to be those inevitable in the development of new types of manufacture and industrial production on a scale not hitherto attempted.

Skilled labour of the right sort appeared to be a major lack, although the dimensions of this problem, seen in retrospect in the light of the much larger engineering problems of 1942 and 1943, perhaps got more attention than they deserved, primarily because the solutions entailed delicate questions of politics and especially of inducing strong trade unions to accept and to assist in implementing departures from some of the most dearly held union principles. Also there were to be difficulties in working out the organisation and administration of a munitions industry which developed by way of large-scale expansion of private industry around an enlarged nucleus of government factories. These difficulties ranged from the large organisational questions which issued in the Departments of Supply and Munitions and of Aircraft Production, to questions of whether munitions planning was not being stultified by spreading energies over too wide a range of weapons; from questions of the impact of wage policies, designed to eliminate immediate munitions problems, on the general wage and price structure of the economy, to controversy over the most satisfactory principles on which contracts with private enterprise should be made. This whole story was apt to be represented at the time as one of delay and lack of plan, but contemporary critics showed too little appreciation of the great deal of time demanded for the working out of what was, for Australian industry, a major conversion and a large expansion.

The second strand is in sharp contrast with the first. In those activities to which pre-war thought had been seriously directed, but where there was neither clear guide from Britain nor past experience to point the way, action was much less easily agreed upon, slower to be taken, and less effective in its results. This was most obvious in the fields that would have been covered by the two missing chapters in the War Book, those on manpower and supply. For months "manpower" can only be used as a somewhat grandiose title for a set of small-scale problems, which gathered around, and were almost wholly confined to, the problem of securing an adequate flow of skilled labour for munitions. As the early months made clear that the war was very different from the one that had been expected, and, at least crudely, the National Register showed the size of available labour resources, thinking in terms of total supplies of labour in relation to possible total demands appeared to have only remote interest; the day to day problems were those of particular sorts of labour covering only a limited range of skills and very moderate numbers. As 1940 wore on, therefore, the questions that came to demand political attention were those of labour relations, that is of the terms on which unions could be persuaded to cooperate with a non-Labour government, the extent to which favourable conditions and rates of pay accorded to munitions workers might be spread over a wider group. At times, there was little in events and discussion in these fields which distinguished what was happening in war from normal peacetime ways of thought and action.

The third strand was that where past experience, leads from Britain, and serious pre-war planning did not mark the way and here there was inevitably the appearance of drift and of lack of clear policy. In shipping,

for example, pre-war thinking had been dominated by the conviction that Japan would be an enemy from the start, and that therefore shortage of shipping would be immediate and acute. The reality was very different and energies were devoted to the persistent search for an assured supply of tonnage to carry exports, while the interruptions to coastal shipping which had been expected as the joint result of an enemy near at hand and extensive Navy requisitioning proved less severe than had been thought. In shipping, therefore, it took a long time to arrive at policies which went beyond the search for export tonnage. In land transport, relatively little was achieved in developing and adapting railway systems once it appeared that there was no immediate crisis in coastal shipping, while control of the use of motor vehicles came only slowly and reluctantly and then mainly through the unwilling acceptance of mild petrol rationing compelled by the twin effects of need to economise dollars and a shortage of tankers. Implied in the munitions and aircraft programmes, and, indeed, in the continuance of the war for any lengthy period, were major problems of power, which meant primarily coal. But for two years this was treated almost entirely as a question of difficult labour relations. In financial policy, most of the serious thinking that mattered appeared to occur after the war had begun, and it was not indeed until the collapse of the Menzies Government late in 1941 that basic issues in this field were resolved. The appearance of delayed thinking is largely a false one. What was lacking was public understanding and acceptance of what a serious war must mean in terms of taxation, of restriction of private consumption, of curtailment of private investment.

Behind all these weaknesses lay the lack of an effective machinery for the formulation of economic policy. With the outbreak of war, a War Cabinet had been established which might and did determine matters of economic policy where they were of direct and immediate application to the recruitment and arming of the Services. Within a few months, formal respect was paid to the wider meaning of war economy in the expedient of an Economic Cabinet, and this was tried again in 1941, and yet again from 1942 as Production Executive when it achieved a moderate degree of success under the Labour Government. Apart from the other reasons for the inadequacy of the first and second Economic Cabinets, they lacked the basis of expert advisers and departmental foundations which were such a large part of the success of the War Cabinet which, in any case, continued to handle the larger questions of manpower and munitions supply. There were attempts to remedy the deficiency by a revival of the Financial and Economic Committee, by the attachment to the first Economic Cabinet of Sir Ernest Fisk with the ambitious title of Director of Economic Coordination, paralleled by the later appointment of the Prices Commissioner to be also Economic Consultant to the Prime Minister. There was an attempt to use the Tariff Board in association with Sir Ernest Fisk. This search for machinery for the formulation and coordination of economic policy reflected at this early stage both incomplete appreciation of what the problems of war economy would be until

they were present as immediate and actual problems, and the inability of the Government to arrive at coherent and consistent policies even when the problems were recognised.

But it is necessary to guard against perfectionist distortion which was a common source of criticism of the Government over the first two years. Economic policy was conditioned first of all by the shape of the war as it was slowly disclosed, and secondly by domestic politics. In the period of the "phoney" war Australia was not seriously engaged in a military sense. Part of the navy went overseas to serve under British command; Australian airmen and one Australian unit flew with the Royal Air Force; at home Australia prepared to train airmen for the Empire Air Training Scheme; but the first time any considerable number of her forces joined battle was in January 1941 at Bardia.

There did not appear to be any immediate risk of attack on Australia itself. Expectations concerning the immediate hostility of Japan had been falsified. The British announcement of preparation for a three years' war had been dutifully repeated, but few Australians really believed in this. They were highly uncertain whether the war would really develop at all, and could have no clear idea of what form it might take if it did. Until it was certain that the war would be fought out, and its impact on Australia was much clearer, the step from general principles, which were seen obscurely enough, to active policy, was not possible.

In this situation there were two main lines of action which were not only possible but which were clearly proper whatever kind of war this might prove to be: building up the A.I.F. and expanding munitions production. And it was these which, after the first flurry of wartime legislation, dominated the scene.

Some of this initial legislation was technically in force, under the *Defence Act*, from 23rd August 1939, when it was clear that war was certain; these regulations were re-enacted under the *National Security Act* a few days later.

Outside the specific regulations covering control of foreign exchange transactions, prices, rents and so forth, the National Security (General) Regulations contained a sweeping section—

A Minister, so far as appears to him to be necessary in the interests of the defence of the Commonwealth or the efficient prosecution of the war, or for maintaining supplies and services essential to the life of the community, may by order provide—

- (a) for regulating, restricting or prohibiting the production, treatment, keeping, storage, movement, transport, distribution, sale, purchase, use or consumption of essential articles, and, in particular, for controlling the prices at which the articles may be sold;
- (b) for regulating the carrying on of any undertaking engaged in essential work, and, in particular, for controlling the charges which may be made by the undertakers in respect of the doing of any work by them;
- (c) for regulating, restricting or prohibiting the production, importation, treatment, keeping, storage, transport, distribution or sale of articles other than essential articles;
- (d) for requiring persons carrying on, or employed in connexion with, any trade or business specified in the order to produce to the authority or

person so specified any books, accounts or other documents relating to that trade or business, and for requiring any persons to furnish to the authority or person specified in the order such estimates or returns as that Minister considers it desirable to obtain.¹

Taken at face value, there was no lack of power in this regulation. And all through the war it was important in that it could be taken at face value and provide the legal foundation for new developments in control as and when they became necessary. But, immediately, the regulation had another significance. It embodied, from a backward-looking view, the fact that in vast fields of government intervention and direction which were to extend over the whole economy, pre-war planning and speculation had been of a limited and tentative character. War in fact made few and severely limited demands upon the economy. Those which it did—men for expeditionary forces, labour, equipment and materials for modest munitions production—could initially be satisfied by calling upon unused or incompletely used resources. Enthusiasts and impatient critics might not realise that the recruitment and training of large forces, and the creation of an extensive munitions and aircraft industry in a country with limited industrial development, took time. The comprehensive powers of Regulation 59 lay dormant and ill-defined until they were needed.

The *blitzkrieg* and the fall of France marked for Australia no such end to the “phoney” war as they did for England. For Australia they meant, rather, a dramatic realisation that the war would be fought out, and apparently that it would be fought out in the northern hemisphere. They thus appeared to define for the first time with clarity Australia’s role, the more so as this now appeared to be a repetition on a larger scale of 1914-18. Australia, it would seem, would only be involved in fighting through its navy under Admiralty direction, its air force operating over Europe and Africa, and expeditionary forces primarily in the Middle East. Her most direct responsibility therefore was the supply of troops, as far as possible fully equipped, for oversea service, and personnel for the air training scheme. Beyond that her military responsibility was limited to defence of a homeland which did not seem to face any major threat in the immediate future. Her other, non-military, role was that of supply, primarily of requirements other than munitions.

After the first shock of the fall of France, therefore, economic policy proceeded with more certainty as to the objectives to be pursued, but with no sharp change of direction because it appeared that the initial tentative lines of action had been confirmed. There was intensification of the munitions and aircraft programmes, whose demands for skilled workers seemed to be the chief manpower problem on the civilian front. Elsewhere “manpower” was replaced by “labour problems”, questions of industrial relations which carried peacetime issues over into the adjustment of war-created difficulties. The central problem of external finance was the curtailment of non-essential imports from the dollar area. There was

¹ Regulation 59 of National Security (General) Regulations, Statutory Rules 1939, No. 87, 13 Sep.

special difficulty with petrol, partly from lack of dollars, partly inability to secure tankers. Shipping in less specialised forms had proved to be neither a problem of coastal transport, nor, to any serious degree, of enemy interruption of communications. It was seen chiefly as a need to secure space for exports. In domestic finance the major issue was the cutting of private capital expenditure without as yet any obvious or urgent need to retrench on current consumption.

After eighteen months of war Australia was still far from a full scale war economy (as such a concept came to be accepted later). At the beginning of 1941 it had something of the appearance of a jigsaw puzzle barely commenced. Individuals and organisations were busily at work on small, mainly unrelated, sections. Whether they would all fit together in the end was not yet a serious question and in any case the full pattern was still uncertain. In part the pattern was made by this very fact. Just because, as yet, increased production did not clearly imply that it would be at the expense of some other wartime activity or at the cost of restriction of civil consumption, the enthusiast, for example with tanks, could on occasions get authority for large-scale expansion for producing equipment, the need for which was at least open to discussion.

As 1940 wore on there were beginning to emerge some conspicuous weaknesses. Foremost among these was the public unwillingness to accept economic sacrifices, contrasting with the general acceptance of an Australian volunteer army. This was illustrated most conspicuously in the reaction to investment controls, and to modest taxation proposals, and the resistance to import restrictions and to petrol rationing. Less conspicuously it was shown in the readiness of contractors working on cost-plus to extract the best profit and of munitions workers to press for higher wages and of others, often removed from war production, to claim equal treatment.

Control of investment was, even late in 1940, still dictated by the desire to contain competition for loan money from private non-war production and thus to direct savings into war loans, on which major reliance for finance still rested. Recognition in full that such techniques were merely indirect instruments for controlling the allocation of real resources was still to come. Even modest financial restrictions on investment were resisted, and met by devious avoidance and evasion. Limits to interest rates were perhaps more readily accepted, in some degree because legislative reduction of interest rates was a recent depression memory, and borrowers who were untouched by wartime controls, or could escape them, found limits welcome.

Import restrictions beyond those dictated by elimination of enemy sources, shipping difficulties and higher landed costs, fell mainly on goods from dollar areas. To Australian industry, except those parts directly dependent on imported supplies, war-created protection of this type was a golden opportunity, and "import-replacement" occurred on a scale which, after the early months, was a cause of increasing concern, but which did not, however, provoke active government discouragement of such industrial

expansion. But the need was increasingly to curtail imports (without "replacement") from all sources. This was unwelcome to British exporters, who had not been averse to Australian cuts in imports from dollar sources; still more did it arouse Australian resistance. Total consumption in Australia was still rising under the impact of growing employment and expanding money incomes, and a decline in living standards would not be acceptable until invasion appeared an imminent threat. Least acceptable of all were moves for rationing of petrol consumption, which was repeatedly deferred and only finally introduced on scales which did not seriously impede non-essential use of motor vehicles; what was achieved was establishment of machinery for tighter control later, and the acceptance of a principle.

These resistances were summarised in the broad field of financial policy, where the Government's performance showed at its weakest. Despite admirable general statements as to policy, in practice the chief source of funds was loans, and modest increases in taxation were achieved only haltingly and treated by government and taxpayers alike as if they were crushing burdens.

The expansion of the Federal public service demanded by war activities was achieved by drawing on a variety of sources. The States in many fields—labour relations, agriculture, technical education, for instance—had been responsible for peacetime administration and therefore possessed the experienced staff, accumulated data, and equipment, appropriate for such activities. On occasions, as in technical training or in munitions annexes, the Commonwealth met its wartime need by utilising State resources without taking them under direct control. On others, as in labour relations, such arrangements did not work happily, largely for personal reasons, and in the end the Commonwealth superimposed its own separate organisation, the Department of Labour and National Service. In a wider field, the State public services were the obvious reservoir for staff trained generally in civil service administration, although as yet the limited scale of the war effort and the emphasis on munitions production did not produce the large flow from State to Commonwealth service of 1941-42.

For senior posts in munitions production the natural place to look was private industry where, as with Essington Lewis, the task was substantially similar to that of private industry in that it was the organisation and direction of a large productive enterprise, and the procedure worked well on the whole. But many of the tasks of war were not similar to those of peacetime production under private enterprise. The successive removal from the original Department of Supply and Development of Munitions and then of Aircraft Production did mark off as separate administrative units the two main branches of production which were under direct government control. Even there, however, there remained danger from the technical enthusiast. The story of the tank production programme is only the extreme example. Very early there emerged a tendency to spread production plans over too wide a range of weapons and equipment, although it was not until 1942 that the full implications of plans adopted in 1940 and 1941 became clear.

Reliance upon private enterprise for wartime administrators was open to more criticism in other fields. The heterogeneous activities of the Department of Supply (after the separation of Munitions) were those of procurement rather than of production, although increasingly they entailed supervision and broad direction as well as modest and intermittent rationing of supplies of materials. The department was built up very largely by recruiting from the relevant industries executives with obvious claims to expert knowledge and experience, not, in general, as advisers to officials, but themselves to exercise executive authority.

The prevalence of this type of appointment caused some disquiet even then. It was not easy for business men to abandon habits of thought and objectives which were proper for private enterprise and to see clearly wartime problems which might well require decisions against the interests of private business. Commonly such people came from one of the largest businesses in their particular industry, frequently they divided their time between government work and their private business; necessarily, even in government work, their associations continued to be with other members of their industry. There was here great danger of bias—for instance preference in contracts—and of the more or less unconscious application of principles of private enterprise in fields where they were not appropriate. Too often there was reason to believe that such was the case, although the very nature of the problem makes quantitative estimate impossible. But it is necessary to realise that very often it did not matter. In many cases decisions, involving, for instance, choice between suppliers, had to be of a more or less arbitrary kind; it was of no great moment if personal associations governed the choice.

The other side of this problem derived from the fact that many of these "controllers" were exercising official supervision over those who had been and presumably would again be their competitors—often still were. Business men might well have reservations about free disclosure of information to and unreserved cooperation with controllers in such a situation, especially where the temporary official was only a part-time one; in the other part of his time in his own business he could not be ignorant of what he had, as an official, learned of his competitors' affairs. Here were problems which might at least have been minimised by employing business experts as advisers rather than as executives.

Of a different kind were the dangers inherent in the creation of committees in which producer interests were dominant. The story of the apple and pear scheme is perhaps extreme, but the practice of constituting committees with powers of control and direction primarily from interested parties was a continuation of peacetime custom. In these early stages the range of controls was narrow, and the possibilities of exploitation of consumers and of conflict between government and producer interests therefore relatively small. What was unfortunate was the establishment, for future extension, of the principle that the normal Australian pattern for committees of control over industry should be applied in wartime.

Another set of problems arose from Australia's federal structure. The supremacy of the Commonwealth in all action required for defence was undoubted and, under the stress of the events of 1942, very real. But in the first two years constitutional principle often had to take second place to the realities of federal politics and a federal administrative structure. At best this might entail time-consuming negotiations for the availability of State resources for Federal purposes. Thus education was a State function; the Commonwealth needed facilities for technical training for munitions and the Services. Railways were predominantly State enterprises, but the Commonwealth wanted access to their workshops for munitions annexes; troops and war supplies required rail transport. Had the interruptions to coastal transport been as severe as were expected, the problems of directing rail transport for wartime purposes would have been as complex and difficult as they were in 1942; in this field almost all the technical experts were State officers and the only practicable solution was to constitute them a committee who ran their services to meet Commonwealth needs, but in ways which they determined amongst themselves. At other times personal ambitions and incompatibilities made Federal-State cooperation difficult, notably in what the States regarded as intrusion: the entry of the Commonwealth into the administration of labour relations and agricultural policy instead of delegating authority to old-established State organisations.

In the first two years, however, the chief difficulties of federalism centred in finance. State governments were ready borrowers and the devices of the 'thirties, intended to cushion and weaken Loan Council control, had established local government bodies and statutory corporations as semi-independent borrowers. Early Commonwealth reliance on borrowing for war finance implied that after the first few months there would be competition with the States for available funds. To the State governments who shared the general obsession with unemployment and the possible effect of war policy on employment, but who, in addition, were responsible for remedial measures and palliatives for unemployment, pressure to curtail their works financed by loan money appeared misguided. This was a problem not fully solved until Pearl Harbour. By the time it was being reduced to tolerable proportions it was already being displaced by a wider problem: that of containing if not reducing State expenditures as a whole, however financed. This was the issue which in 1942 produced "uniform" income taxation.

In handling its wartime problems the Commonwealth Government was early up against one of its most pervasive and persistent difficulties, the imperfections of its statistical services. At the outbreak of war there was a Commonwealth Bureau of Census and Statistics, inadequately staffed both as to numbers and quality; in New South Wales, where there was an established tradition stemming from the many-sided work of Timothy Coghlan, there was a bureau of equal status if smaller range of activities; the other States were weaker in this sort of service. In many fields the total results which emerged were first-class, but in other fields, of importance in peace or war, available data were extremely imperfect; satisfactory

employment statistics had to await payroll tax returns which did not commence until 1940 and required months of accumulation to be really valuable. For many of the problems of war even imperfect data did not exist and material available was too incomplete or contradictory or in specific forms too specialised to lend itself to wartime improvisation.

What was far more serious was the lack of staff, outside a handful of people such as the Commonwealth Statistician himself, who were capable of more than routine manipulation of statistics. Except for the often light-hearted and sometimes heroic experiments of Mr Colin Clark² in Queensland, government statistical services were not equipped for the wartime tasks of designing statistical inquiries adapted to immediate and urgent wartime needs.

The Government itself showed no appreciation of the source of one of its own chief difficulties; the Commonwealth Statistician, Dr Roland Wilson, was transferred in 1940 to head the new Department of Labour and National Service and replaced by borrowing the part-time services of Mr Carver,³ New South Wales Statistician.⁴

In these circumstances, attempts were made to fill the gaps as and when departments found pressing need or opportunity. The National Register was the Defence Department's means of coping with the need, as they saw it, for manpower data. The Department of Supply was scarcely in operation before it started the first of its many sectional surveys of industry. As time went on departments built up, often with discreet disguises, statistical sections of their own. For the immediate needs of those departments such efforts were at least better than nothing. But at best these special sections were concerned with circumscribed problems and their limited results were often of little value apart from the immediate problem which prompted them. The Department of Supply's sample surveys, for instance, no doubt served their primary purpose, but they did not, except by chance, answer the questions of other departments and they were not designed to secure continuity in data. Perhaps the worst result of all was that a particularly scarce form of skill was dispersed in isolated sections which it proved impossible to integrate into a single statistical service. The most remarkable achievement, later in the war, of the Acting Statistician was his high degree of success as a peripatetic diplomat in informal coordination of the work of these scattered workers.

By late 1940 there were beginning to emerge the first signs of a problem of how it was all to fit together. The realisation that there was such a problem of fitting together all the various administrative agencies and the policies they were pursuing was very slow in coming. Lip service to the

² C. G. Clark. Lect in Statistics Cambridge Univ 1931-37; Dir Bureau of Industry and Adviser to Qld Govt 1938-52; Dir Oxford Agric Econ Research Institute since 1952. B. London, Eng, 2 Nov 1905.

³ S. R. Carver. (1st AIF: 1918-19.) Govt Statistician N.S.W. since 1938; Actg C'wealth Statistician 1941-46 and since 1951. B. Goulburn, NSW, 7 Feb 1897.

⁴ Neither a new situation, nor one that has disappeared. In the past twenty years the Commonwealth Statistician has been an acting officer for more than half the period; since 1940 Carver's doubling of posts has continued with one relatively short break; although officially the Commonwealth Statistician was also back with the Bureau for some of that time.

doctrine of coordination and integration was common enough from the earliest days, and when specific pieces of coordination became real issues they were faced and disposed of, as for instance in the conflict of policies between price control and the arbitration court. But these cases pointed to what was true in a wider sense. Real recognition of the problem of coordination did not come until the economy had reached the stage where it was clear that resources were inadequate to permit the implementing of all the plans which had been adopted, without serious inroads into the economic freedom of consumers. "Coordination" was, except rarely, a backward-looking conception, concerned with ironing out conflicts which had already emerged, and only occasionally was there success in foreseeing such conflicts before they were real and present. The struggle to evolve machinery for the coordination of economic policies continued to the end of the war, with increasing but never complete success. Perhaps success never was a possibility. Central direction of an economy which remains predominantly individualist is a task of extreme difficulty at any time; when external events dictate what policies are required, and demand rapid and extensive changes, the task becomes one to be pursued in the knowledge that what is achieved will always prove to be far short of and perhaps quite different from what is, by that time, needed, and that nevertheless the failure to try will be fatal.

Attempts were made to see the problem in the round, and to devise machinery to solve it. Indeed, what was perhaps the most interesting experiment was initiated months before war began, with the creation in December 1938 of the Financial and Economic Advisory Committee. As thus first planned, with Professor L. F. Giblin⁵ as chairman and two public servants as members, it had a specific and limited task which it executed: examining the repercussions on the Australian economy of the drastic restriction of overseas trade which would be imposed if war did come, with Japan as an enemy. The broad lines of its analysis and prescriptions remained a valid guide to policy for many months of actual war, even though the reality was not that which its reports had assumed; its recommendation for a specialised committee bore fruit in the Seaborne Trade Committee, which in its restricted field did, in the early months of war, a great deal to smooth out inconsistencies in departmental policy and to point the need for related action on many occasions.

Had the story stopped there the Financial and Economic Committee would have had its place among the *ad hoc* committees which were to be so commonplace in the years of war, committees which came into being, sorted out the issues in a particular problem of relating the activities of various departments, and disappeared, often without formal dissolution and sometimes the scantiest of records. The transfer of the Financial and Economic Committee to the Department of Supply in June 1939, and its reconstruction and transfer to the Treasury three months later were the

⁵ L. F. Giblin, DSO, MC. (1st AIF: 40 Bn 1915-18.) Govt Statistician, Tas, 1920-28; Prof of Economics, Univ of Melbourne 1929-40; Director C'wealth Bank 1935-42. Chmn Finance and Econ Ctee 1938-47. B. Hobart, Tas, 29 Nov 1872. Died 1 Mar 1951.

initiation of something far more important. With a larger membership it had a charter which fell short of advising on all aspects of economic policy, but was still wide enough and ambiguous enough to permit a great deal. Moreover, it could initiate study of a problem as well as examine those referred to it. Its title indicated lack of clarity in the minds of those who conceived it—or perhaps conscious choice of a financial emphasis to disarm those departmental imperialists who might see in the comprehensive “economic” a threat to themselves. Even its members initially showed no great ambitions as to its scope. Yet for a year it was to be the most potent force in the thinking out of economic policy, with an influence not defined by the direct impact of its reports. After late 1940, or, in the specialised field of finance, late 1941, it declined in significance partly for reasons associated with its changing membership, but mainly because its essential job had been done.

That job was, in effect, that of a discussion group. In those early months, before the demand for action was urgent and before the Government was able to give clear directives, there was a great deal to be done at a somewhat lower level in working out what problems had to be faced and by what politically acceptable means they might be solved. This was the central achievement of the Financial and Economic Committee, that of identifying the objective that had sooner or later to be pursued, and of examining it in the free give and take of informal discussion. At first its range of interest was wide and many of the themes it took up were never pursued. From the beginning its emphasis was on financial issues and instruments. At that stage this was less because of its terms of reference than because in a war economy barely conceived, in which there was heavy reliance on voluntary effort and on private enterprise, the effective directing forces were the general ones of finance. Thus the committee devoted much time to techniques of loan raising, the control of private investment to limit competition with government borrowing; very early it was hammering away at the need to convince the Government that taxation was an instrument which must be used boldly. It did not confine itself to finance—import licensing was before it, as later was the application of “real” as distinct from monetary restrictions on private enterprise. But even its early emphasis was on finance; by late 1940 that had become almost its main preoccupation partly because other fields of policy were broadly decided, or were the chief responsibility of other agencies, but mainly because the issues of 1941 which demanded clearheaded and tough thinking and decisive government action were the basic financial issues.

For perhaps eighteen months or at most two years the committee's influence was powerful and pervasive. In large measure this was because it did not work by formal recommendation and report. If action in the name of the committee appeared to be required it was left in the hands of the chairman, whose unique position gave him opportunities to push what were sometimes his own interpretations of the committee's conclusions. From September 1939 the committee was attached to the Treasury, and Spender as Treasurer was more receptive to broad policy ideas reaching

him by this route than he was to those of regular Treasury officers. At times Giblin proceeded by uninhibited personal letters to senior administrators. But he was not the only channel through which the analyses of the committee were spread. Most of its members were themselves in major positions of influence, and the number of such members increased;⁶ from the committee they took back both a better idea of how their colleagues were tackling their own jobs than any formal inter-departmental conference could have given, and a new point of view on their own tasks. Records of Financial and Economic Committee discussions were available to a somewhat wider group. How to assess influence exercised in such a way is extraordinarily difficult but it is certain that it was considerable, and undoubtedly many public servants and a minister or two came to adopt as their own, ideas and policies which had their genesis in the committee; even the phrasing of nominally decisive policy documents at times had an identifiable committee source with no reason to believe there had been any direct or immediate connection. But for the first eighteen months the committee was of critical importance. Over and over again it identified problems long before the officials who were right up against the details saw any problem at all, and at least marked out the chief issues which had to be resolved.

The decline of the Financial and Economic Committee from 1941 was basically the result of its importance. Until the end of the war it continued to function in a much more limited and less influential way. In one direction was the fact that many problems which at first concerned it became the special responsibility of distinct administrative agencies. On the other hand it lost its primary value when too many senior administrators sought membership because they recognised it to be an important and influential committee. The result was that after mid-1940 they unintentionally killed its effectiveness in almost all fields except finance, because first it became a quite different sort of committee and then its members were too busy to function as members, and not much good as members because they brought to it the point of view of harassed administrators.

The other attempt at coordination contemporaneous with the Financial and Economic Committee did not endure for anything like a similar period, although the Economic Cabinet represented a sincere effort in the direction of a permanent solution.

The functions of the Economic Cabinet, created in December 1939, were declared to be:

- (a) keep our financial position steady, but responsive to expanding needs;
- (b) maintain production and trade at as high levels as possible, keep domestic prices reasonable and ensure the maximum of employment;
- (c) effect a considerable transfer of labour and equipment from peacetime to wartime industry;
- (d) promote new industries, some of which will be to manufacture goods whose importation has been interfered with by the war, and some others which

⁶ For varying periods the following were members of the committee: J. B. Brigden, Sir Harry Brown, Professor D. B. Copland, H. C. Coombs, D. McVey, L. G. Melville, Professor R. C. Mills, E. R. Walker, Roland Wilson.

- are due to be undertaken in any case. Some again relate to the primary field, as for instance crops furnishing certain raw materials in industry;
- (e) begin to plan now for the ultimate turn-back of men, materials and equipment from wartime to peacetime requirements, so that the readjustment may take place with the minimum of economic disturbance.

It was intended to be, though it never was, the equal of the War Cabinet, in a different field. The Prime Minister described it as dealing with "the business side of our problems . . . also the whole problem of the effect of war upon our national economy".⁷

Had performance marched with promise, this body might have provided the focal point for central direction of economic policy. But there was never any real chance of this. At bottom, the explanation lies in the political situation of the period and the inability of the Government to come to grips with economic problems which were still only emerging; and perhaps most in the failure to realise that economic objectives were not something which just happened. As much as military mobilisation or an expeditionary force, the economic tasks of war were a matter of choice, economic problems did not just happen but could be deliberately created.⁸

The limited conception of the economic problems of war was indicated by the initial membership of the Economic Cabinet under the formal chairmanship of the Prime Minister: the Minister for Supply and Development, the Minister and Assistant Minister for Commerce, Minister for Trade and Customs, Acting Treasurer and the Postmaster-General. The War Cabinet, meanwhile, was inevitably becoming not an equal body but an inner cabinet. The large economic questions—manpower or munitions production—were its concern. On the other hand, the broad questions of financial and economic policy, of taxation, loans, public works, import licensing, the wartime difficulties of wheat, fruit, and other primary products, might be discussed by the Economic Cabinet, but the decisions ultimately rested with the full Cabinet or, at best, with an Economic Cabinet attended by so many other ministers that the distinction was in name only.

Consequently the Economic Cabinet found itself restricted not only in the range of matters it could determine; any decision it made was subject regularly to the whole matter being gone over again in the full Cabinet. Although, therefore, regular meetings continued until May 1940 and a host of large and small matters of economic policy figured on its agenda, the major economic decisions came either from the full Cabinet or the War Cabinet.⁹ It could be said that it did not achieve its task because, in the political situation of the time and with the imperfect appreciation of what making a war economy might mean, there was no real job for it to do.

But there was more to it than that. The Government might find it difficult to formulate an economic policy, but its search for a policy was

⁷ Press statement, 11 Nov 1939. The Economic Cabinet formally commenced on 12 Dec 1939.

⁸ The political difficulties of making the Economic Cabinet effective are more fully discussed in P. Hasluck, *The Government and the People, 1939-41* in this series.

⁹ Meetings ceased after May, although the Economic Cabinet continued nominally to exist.

genuine. The "Menzies seminar" described earlier is sufficient evidence of the desire to grope towards some clearly defined economic objectives, however dimly they might as yet be seen. Here the Government was the victim of the "phoney" war. What the economy was required to do or what might be demanded of it, appeared to be easily within its capacity; dramatic economic policies would have been quite inappropriate. What could have been done was to establish and get into good running order the machinery for economic policy while the demands were modest.

The Economic Cabinet might have been the instrument. It lapsed after the fall of France because it had not developed an organisation beneath it to make its work effective and authoritative. The War Cabinet, by contrast, had as secretary an exceptionally skilful and experienced public servant, heading an established department equipped to provide the administrative basis for investigating and formulating policy for Cabinet consideration and for executing its decisions. For the Economic Cabinet Menzies made the fatal mistake of following his inclination to appoint the outside "expert". No department was created; that would have been an impossible task with several established departments in the field, although Supply and Development might, at this stage, have been able to overcome the resistance of others to its adopting this role. No secretariat with its roots in the departmental organisation was given to the Economic Cabinet.

Instead Sir Ernest Fisk, by training an engineer, managing director of Amalgamated Wireless (Australasia) Ltd., since 1917, was appointed not merely Secretary to the Economic Cabinet but as well to the impressive and provocative post of Director of Economic Coordination. The Prime Minister circularised the Cabinet:

It is not intended to set up a super department to overrule departments. As Sir Ernest's designation implies, he will co-ordinate activities and be available to co-operate in effecting the unity of policy. The recognition of Sir Ernest's position by Ministers, heads of departments, and officials is necessary if we are to get the full benefit of the services he is making available to us, and I should be grateful if you would make it plain to the officers of your Department that Sir Ernest is regarded by the Economic Cabinet as appointed to advise and assist them on the activities of all departments dealing with our economic structure. One thing stands out clearly—he should be kept fully informed by all departments, not only as to major activities but all projected activities; to understand the background this information would need to be in some detail. It is my intention that I should be closely associated with Sir Ernest. The information supplied to him would, in effect, be information sent to me; conversely, much of the information sent to me will be passed on to Sir Ernest so that I can have the benefit of his opinions and advice. This arrangement will not in any way conflict with the position of Ministers nor in any way interfere with their administrations. To ensure that matters are kept flexible and mobile, I propose to appoint to my staff two economic secretaries, one of whom will also be my private secretary and these officers will also be members of Sir Ernest's staff. They will be responsible for keeping a continual flow of information between us and will be available to you and the heads of your Departments as channels through which information can pass. To facilitate matters, I suggest that Ministers and departmental officers use them as much as possible for the interchange of relevant information.

The origin of the use of the Tariff Board as an "Advisory and Consultative Committee", assisting Fisk as Director of Economic Coordination, was the Prime Minister's sponsoring of it in his contribution to the Economic Cabinet "seminar" on economic policy in February 1940. He distinguished two key problems. The first, of determining in what direction new industries or enterprises should be encouraged or permitted, he presented in the language of the time: "import replacement", that is the development of local production to replace imports cut off by war or restricted by government policy. Such expansion was being actively encouraged by some departments without regard to any conflict with the demands of war or the complications implied when the war ended, while the Government had not been able to arrive at any principles to guide it in its attitude to import replacement. The second set of problems, not relevant here, were civilian manpower ones. Of the first Menzies wrote: "we should use the services of the Tariff Board. There has of late been some disposition to put it on one side, to put it 'into suspense' so to speak, for the duration of the war. This in my opinion, is a great mistake. No body of men in Australia is better qualified by experience and knowledge to maintain a constant watch upon our industrial development and to make reports upon the lines which it should follow."

This fitted with Fisk's desire to have virtually no staff of his own, and the upshot was a Cabinet decision of 5th March 1940 appointing the members of the Tariff Board to be a committee to make investigations for the Director of Economic Coordination, specifying "the utilisation of capital and skilled personnel in the more essential industries, the prevention of expansion in and if necessary the limitation of production of non-essential goods, the prevention of the establishment of uneconomic industries unless such industries can be regarded as temporarily advantageous in the present situation, post-war planning and reconstruction more particularly as affecting secondary industry". Thus the Board started on nearly two years of industrious work which, differently directed, might have been of great importance. But most of its work was in fact largely wasted.

The first reason for this result was the character, experience and attitude of the board itself. For two decades it had been engaged in the hearing of cases for variations in customs duty sought by Australian producers, and with similar inquiries. It had acquired considerable skill in assembling the kind of factual material relevant, or believed to be relevant, to such inquiries, and it had established itself in the confidence of the Australian manufacturer. But that confidence rested in part on the fact that the board was, on the whole, on the manufacturers' side, although in the late 'thirties it had become increasingly concerned with evidence that the tariff was promoting inefficiency. Still more its technique of the advertised public inquiry, where anyone might give evidence, coupled with hearings in camera, which manufacturers had learned were genuinely confidential, suited the Tariff Board function. But that technique was totally inappropriate to wartime investigations, a fact which the board never fully recognised; at the beginning much time was wasted in the board's desire to

maintain this technique when its members were acting as a special committee. To this must be added its inability—for which it was not wholly to blame—to ask what were the really pertinent questions. Its natural tendency was to investigate an industry as it would have done if it were a tariff inquiry. Neither from the Cabinet nor from Fisk did it receive demands for report which could guide it in other directions.

This was the second and more important factor in the board's record. It could only inquire into what was referred to it and this depended primarily on Fisk. Two months after the committee's appointment its chairman was complaining that it had nothing to do. A list of matters referred to it during 1940 shows that these were almost wholly particular products or individual enterprises. A useful job of fact-finding was done on many of these, but even at that level it was often wasted since all the information might be already with a department which in the end was concerned with things at that level, or the board might find itself following behind such a department which had already initiated its own fact-finding. Fisk's directives as to the kind of report required were not of a type to show the committee that its natural tendency to consider a product or an enterprise in relation to its possible permanent place in Australian industry was rarely the most useful approach to the short-run exigencies of war. Its fact-finding could be extremely useful, but the process as the committee operated it usually meant that the usefulness came later in relation to problems other than those which initiated the inquiry. This, rather than any conscious decision, explains why the board was still employed in such inquiries in late 1941, then with allegiance to the (first) Department of War Organisation of Industry.

Assessment of Fisk's performance as Secretary to the Economic Cabinet and Director of Economic Coordination should not run wholly, nor indeed mainly, in unfavourable terms. The task he was, on paper, supposed to carry out was an entirely impossible one. Fisk was naturally most at home in the least part of the work, the *ad hoc* specific inquiry into a segment of industry, and especially "trouble-shooting", and left to himself he would probably have done little else. But the ambitious task he was given should have dictated a refusal to become immersed in detail, and a decision to confine himself to ensuring that inquiries which could not be handled by existing agencies were covered by new organisations. Fact-finding should have been his concern only in limited ways. He might have initiated action to coordinate the heterogeneous and often conflicting agencies which were engaged in overlapping and underlapping investigations into industry. And as secretary to the Economic Cabinet it would have been his responsibility to ensure that proposals coming before that body were accompanied by all relevant data. That task of secretaryship was big enough and difficult enough to absorb all the energies of an able man.

What more was expected in "directing" economic coordination was never entirely clear, but on any reasonable interpretation it was a task for the collective wisdom of a Cabinet, not for one "expert". At a lower level it demanded the attention collectively of a number of senior officials, of

whom Fisk might conceivably have been, in this respect, the leader. But their acceptance of such leadership would have been more than doubtful. In the event Fisk's whole personality and experience determined that he did not see his function in those terms and the question did not arise, except that on occasions action on a particular piece of coordination might be slightly complicated by the need to defer formally to his nominal function. Fisk never had time to learn the structure and practices of departmental public service, which was entirely foreign to him; he did not to the end understand that the economic system as a whole was something different from the total of each of its pieces taken separately; whenever he had to deal with a general question outside his business experience he fumbled, and public servants (including many amateurs), already not unwilling to be critical nor over-anxious to help, were convinced that "economic coordination" would not come from that source. In short the job, as imperfectly defined, was not one which any one person could have attempted; such parts of it as could be regarded as a practicable assignment could never have been successfully pursued by an "outsider", least of all by one not well-versed in the complexities of inter-departmental politics and fully aware of what the organisation of a war economy really meant. Fisk's strength was trouble-shooting in individual enterprises, and in the circumstances it became his fatal weakness.

By late 1940 the failure of the experiment was clear enough, but the arrangement lingered on. Increasingly, however, it was a formal affair, with Fisk isolated from what was happening and with negligible influence on the course of events. With the discard of the Economic Cabinet, only one of Fisk's appointments, that of Director of Economic Coordination, continued and that on the restricted basis of "matters referred to him specifically". It fell to Fadden during his brief Prime Ministership to terminate finally, in October 1941, this last vestige of a mistake. The mistake was Fisk's, perhaps, in attempting to execute a fantastic assignment; but the central blunder was at a higher level.

CHAPTER 11

THE SEARCH FOR FINANCIAL POLICY

THE BUDGET OF NOVEMBER 1940

AFTER the 1940 elections the new Treasurer, Mr Fadden, introduced the formal budget for 1940-41, but had to go far beyond the anticipatory tax plans of May. Then war expenditure within Australia had been estimated at £79,000,000 for 1940-41; now it was estimated at £143,000,000 within Australia and £43,000,000 overseas, a total of £186,000,000. In May no provision was made for meeting overseas expenditure beyond arranging a loan from the British Government; now it was declared: "Thanks to the improvement in our London funds position last financial year, and to the fact that our control of imports is now becoming fully effective, we shall be able to make a substantial contribution to overseas war costs before the end of the financial year. The amount of the contribution will depend upon our trade balance. It will be financed by the Commonwealth Bank, which will receive Australian government securities in exchange for the sum provided from sterling funds for overseas war expenditure."² Local war expenditure, it was forecast, would reach a rate of £15,000,000 a month by the end of June 1941.

Cash balances available towards the £143,000,000 totalled £28,000,000 and it was estimated that existing taxation would provide £34,000,000. Therefore there remained £81,000,000 to be found. The Treasurer answered at length those who were urging "national credit" as the solution:

Credit expansion must be used to the full up to the limits of safety; but this is not a time when we can look with safety to any considerable further expansion of credit. Money is now plentiful. Even at the present slack season of the year, the cash reserves and deposits of the trading banks are high and will become higher. Employment has so increased that there is little of our normal labour force unemployed, and what is still unemployed cannot be easily or quickly brought into productive activity. Prices are rising steadily though slowly. Civil consumption, except in a few directions, has not fallen below peacetime levels, but has rather increased. . . .

Expenditure in Australia by the Government, on war or anything else, must come in some way from the pockets of the people. It may come by loans, where a man willingly gives up spending power in the present in return for spending power in the future. It may come by a system of taxation designed to take from each man according to his ability to pay. It may come by expansion of credit whereby spending power is taken from the community by rising prices. . . .

My conclusion is that we must not rely on expansion of credit for our war finance. This is not to state positively that we shall not get assistance from it, but only that we must not count on it in advance. It is certain that we do not want more expansion than is now going on, and is inevitable in the immediate future. . . .

Further expansion of credit then, is not to be counted on as a means of war finance. We are left with two implements, borrowing the savings of the community

² *Commonwealth Debates*, Vol. 165, p. 83, 21 Nov 1940.

and taxation. Loans will depend on the willingness and capacity of the people to save, and may be increased by organised effort, particularly through war savings certificates. Whatever can be done in these ways will leave a very large gap to be filled by additional taxation.³

Accordingly public borrowing of a total of £80,000,000, of which £50,000,000 was for war, was proposed, with additional taxes estimated to yield £31,000,000. The Treasurer stressed that he was taking a restricted view of the need for funds:

To fill this gap completely and certainly at this stage so as to cover all possible emergencies would entail too large and sudden increases in taxation. We can endure very heavy taxation, as the people of Great Britain are enduring it, but we must have a little time to adjust our way of life to the strain. From the circumstances of the case, the full strain comes on us here very suddenly. We must pass in a few months from what is not very different from a peacetime economy to what must approach a full wartime economy. It will be wise to ease the transition as much as possible.

I am therefore budgeting only for defence expenditure which is inevitable, and am not making provision for additional war commitments which may well have to be met. The war budget this year is also being eased by cash balances of £28,000,000 which were in hand on the 1st July last, and no cash balance will be carried forward at the end of the year. And I am taking the most hopeful view possible of the extent to which our people will voluntarily increase their savings and lendings to the Government. By this procedure I am able to keep down the proposals for additional taxation to an amount which though very heavy is not too large to be taken in one bite by a people resolutely at war.⁴

He went on to compare total Commonwealth and State taxation under these proposals and during the depression year of 1932-33, putting the wartime figure at twenty per cent of national income and that for depression at seventeen per cent.⁵

Nevertheless the tax proposals appeared Draconian to the public. In May increases had been made known early, ostensibly so that taxpayers might prepare for the worst, and had totalled £14,000,000 for 1940-41. Now they were told that a further £31,000,000 must be found, in the remaining seven months of the year. The detailed proposals accentuated the blow and a budget crisis developed quickly.

The Fadden tax proposals sought to secure additional income in 1940-41:

Income Tax—Individuals	.	.	.	.	.	£ 17,700,000
Companies	.	.	.	.	.	5,800,000
Sales Tax	.	.	.	.	.	3,400,000
Customs and Excise	.	.	.	.	.	4,200,000
						<hr/>
						£ 31,100,000

³ *Commonwealth Debates*, Vol. 165, pp. 84-5, 21 Nov 1940.

⁴ *Commonwealth Debates*, Vol. 165, pp. 85-6, 21 Nov 1940.

⁵ These are based on the obsolete Sutcliffe technique for estimating national income. The relative position is not much changed by more refined calculations, and Fadden's figures are preserved because they recall how the burden was visualised in 1940.

For individual incomes steep increases were proposed. The Treasurer's outline (for a full year) was:

	Total Income	Tax
Over £1,000	£85,000,000	£20,000,000
£400-£1,000	143,000,000	8,000,000
Under £400	517,000,000	5,000,000
	<u>£745,000,000</u>	<u>£33,000,000</u>

Collections within the year 1940-41 were forecast at £26,000,000 compared with £10,000,000 under the May proposals. The most radical change was the lowering of the exemption limit from £250 to £150. At the other end of the scale the problem of divergent State tax rates was solved by taking 14s as the maximum effective rate of combined Commonwealth and State taxes.⁶ This was described as the "reasonable limit".⁷ Middle incomes accordingly had to carry a heavy part of the increase, especially as the rebate of company tax in respect of dividends was withdrawn. (This change was estimated to yield £1,700,000 in the seven months.)

For companies the wartime company tax was revived, substantially in its original form, while the tax on undistributed profits was greatly increased. The exemption of 25 per cent of distributable profits was removed and the rate of 1s in the £ was doubled. It was estimated that, in all, one-third of company profits would then be taken in taxation.

Sales tax changes contemplated revision of the exempt list to bring into the taxable field sales estimated at £47,000,000 taxable at 5 per cent. An exception, taxable at 10 per cent, was boots and shoes of a wholesale price exceeding 15s, which became the target of attack. A group of goods regarded as luxuries or near luxuries was to be subject to tax at 15 per cent, while all other goods previously subject to 8½ per cent were now to bear 10 per cent. The exempt list was calculated still to comprise goods of a sales value of £314,000,000.⁸

Customs and excise changes were put forward as not merely to raise revenue but also to curtail consumption, to relieve the demand for exchange, and to restrict consumption of some goods likely to be scarce (matches were quoted).⁹ The increases were on beer, spirits, tobacco, cigarette papers, matches, carbonic acid gas.

⁶ "Effective rate" allows for the deduction of State tax permitted for Federal tax purposes.

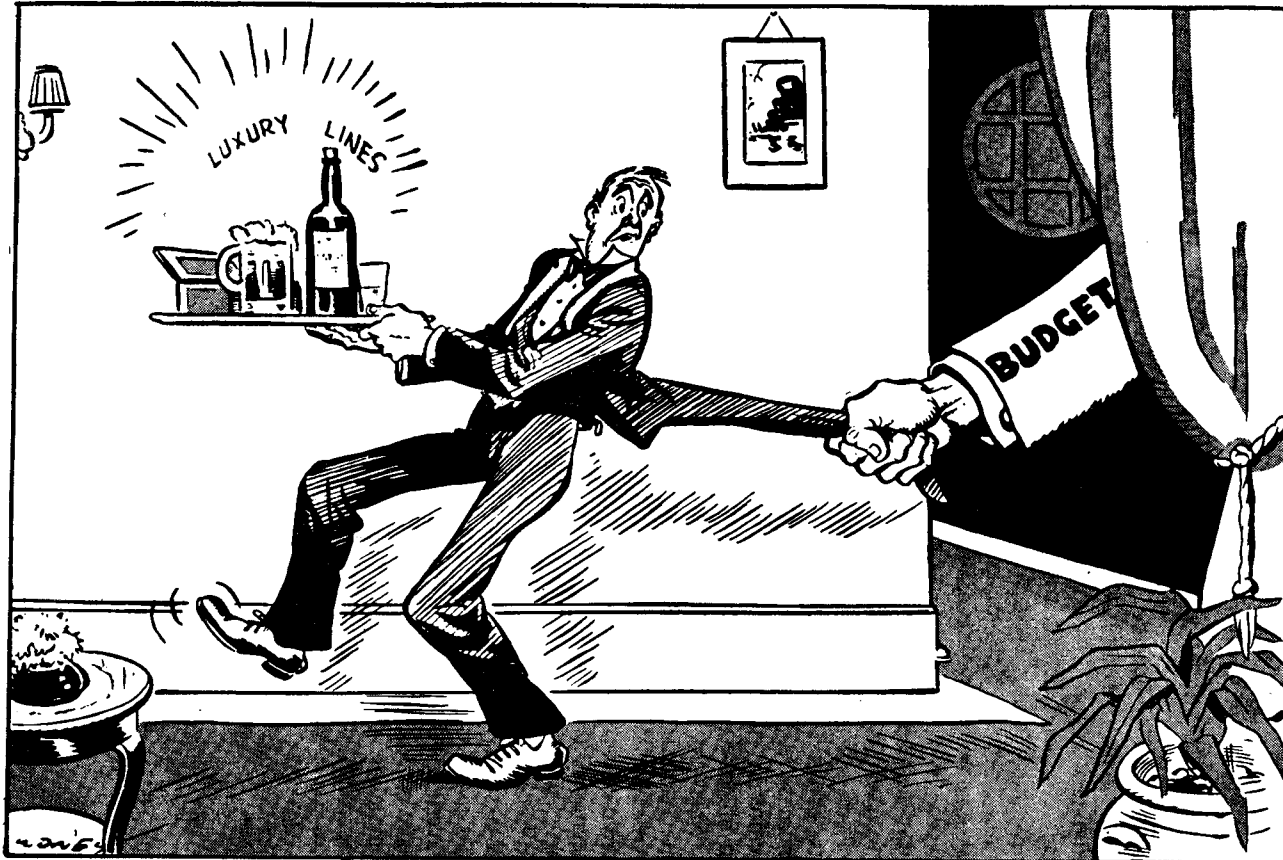
⁷ *Commonwealth Debates*, Vol 165, p. 88.

⁸ Made up as follows (*Commonwealth Debates*, Vol 165, p. 95, 21 Nov 1940).

	£
Basic foodstuffs (including tea)	131,000,000
Fuel, light and power	60,000,000
Primary products	25,000,000
Primary producers' machinery, materials and aids	23,000,000
Goods sold to government departments	40,000,000
Beverages, tobacco &c. subject to heavy duties of customs and excise	17,000,000
Sundry items such as small manufactures, boots and shoes under 15s. a pair wholesale, goods for public hospitals and public institutions and church equipment	18,000,000
	<u>£314,000,000</u>

⁹ *Commonwealth Debates*, Vol 165, p. 106, 21 Nov 1940.

EXCUSE ME!



A storm burst inside and outside Parliament. The key points of attack on the tax programme were the reduction of the exemption limit to £150 and the details of the wartime company tax. The expenditure plans were under heavy fire, the main points being allowances to servicemen's dependents and drought relief to wheat farmers. The Opposition concentrated especially on the Treasurer's refusal to use central bank credit except incidentally. It was apparent, particularly on this last, that the Government's tenuous majority would not withstand the formal attack moved by the Opposition, and the Government hastily sought a compromise through the Advisory War Council. The terms of the compromise were:

- (a) exemption limit for individual income tax to be £200, not £150, and dependent mothers to be dependents for exemption purposes;
- (b) increase in allowances to servicemen's wives with children;
- (c) £1,000,000 to be provided for drought relief to wheat farmers;
- (d) increase in old-age and invalid pensions to 21s per week, with arrangements for adjustment to changes in the cost of living;
- (e) a select committee to review details of wartime company tax (the amount estimated in the budget was, nevertheless, to be raised from this source);
- (f) a conference on central bank credit between the Advisory War Council, Commonwealth Bank and the Treasury.¹

Immediate steps were taken to implement these decisions, except that the last had some vicissitudes discussed later.

The all-party committee on wartime company tax reported promptly and unanimously. It proposed, and the Government agreed, to distinguish between private and public companies. The former were excluded from this company tax, but were subjected to tax under the ordinary income tax law on the whole of their undistributed income (instead of 75 per cent of it), while public companies were subject to the greater of two imposts—the original wartime company tax or a super-tax of 5 per cent of the excess of taxable profits over £5,000.²

The Treasury estimated that receipts from individual income tax would be reduced by £2,500,000, offset (in a full tax year) by an increase of £1,700,000 in the company tax field. Additional expenditure was estimated at £2,930,000 in a full year and £1,985,000 in 1940-41. The net change for 1940-41 was taken as a reduction in the amount available from the budget for war expenditure of £3,235,000, which was added to planned loans.³

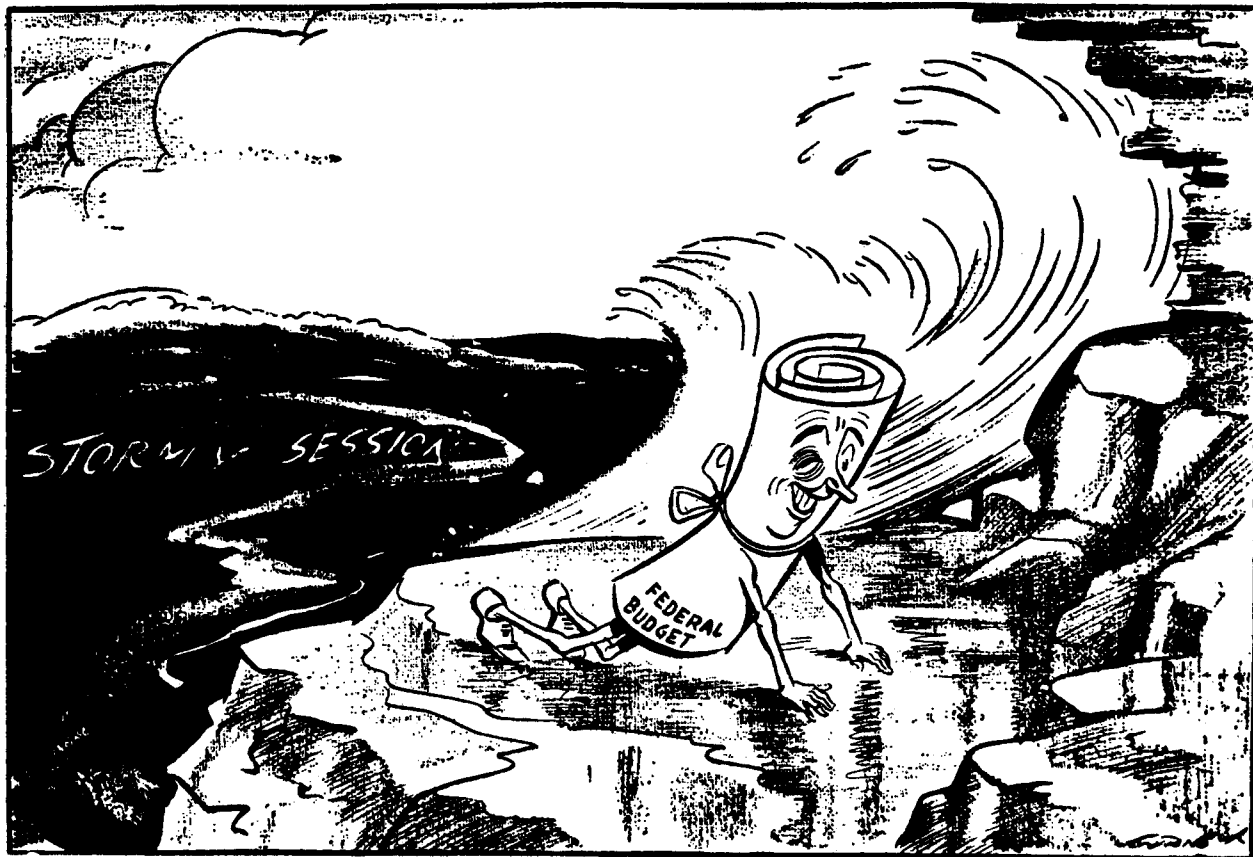
Belief in the mystical virtues of central bank credit, especially under the more woolly label of "national" credit, was always as common in Australia as elsewhere. There survived from the economic depression of the 'thirties a dying minority of irreconcilable believers in Douglas Credit and other financial cure-alls. But more serious was the widespread and often unrelated belief, especially among Labour Party supporters, that the im-

¹ *Commonwealth Debates*, Vol 165, p. 483, 5 Dec 1940.

² *Commonwealth Debates*, Vol 165, p. 821, 10 Dec 1940.

³ *Commonwealth Debates*, Vol 165, pp. 1110-1, 13 Dec 1940.

HOME AND DRY



properly understood "powers of finance" could be used to lighten the burdens of war but were, in fact, likely to be used by an anti-Labour government to distribute the costs of war unfairly. This latter belief tended to crystallise around faith in the use of the Commonwealth Bank which Labour itself had created a generation earlier, but which had never been permitted to function as it had been planned. Some Douglas Credit people had succeeded in promoting a small circulation of War Savings Certificates in country districts, while another line of thought, which found little favour with the recognised political parties, campaigned for financing the war by interest-free loans from the Commonwealth Bank.

In the debates on the budget the more serious Labour members had pressed for a greater use of central bank credit without going to these extremes. Their proposal was:

... in respect to financial policy generally, the resources and functions of the Commonwealth Bank be used to the limit of safety, and in order to provide against inflation the private trading banks be regulated on the basis of the report of the Royal Commission on Banking in order to prevent them building up a superstructure of bank credit on the monetary expansion arising from war conditions.⁴

It was this proposal which formed the basis of the discussion to which the Advisory War Council had agreed, and which followed promptly.⁵ A major part of the discussion consisted in hearing the views of Sir Claude Reading on behalf of the Commonwealth Bank, his main theme being that the "great difficulty is to determine when, how much and in what form central bank credit should be issued".⁶ What the Council expected from the chairman of the Bank was, of course, expert advice on the answers to these questions which had been formulated often enough in the parliamentary debates.

Inflation has been one of those popularly used terms which eludes definition and which under pressure of any attempt to make it really precise fades into bearing any meaning one chooses. It was being used at the time in the normal way, carrying with it one rather clear idea of an undesirable rise in prices and money incomes, accompanied by unstated reservations about rises believed to be due to causes other than the similarly unstated ones which the speaker of the moment regarded as inflationary. What was needed was to bring the discussion down to earth by giving answers in concrete terms, not to a request for a dictionary definition of inflation, but to the more relevant question which Reading himself had asked.

It could hardly be said that the answers he offered to his own question carried the discussion much further. It was necessary in his view to consider the extent of unemployment; whether the budget was likely to produce a surplus or deficit; and the extent to which taxation had been carried; trend of prices and their effect on real wages. He conceded that once taxation had been carried to a limit, which was not very clearly

⁴ *Commonwealth Debates*, Vol 165, p. 268, 28 Nov 1940.

⁵ 12 Dec 1940.

⁶ *Advisory War Council Minute* 61, 12 Dec 1940.

defined, some degree of inflation might be inevitable. The effect of all this was somewhat weakened by his reply to a question, in which he declared that any subscription by the Commonwealth Bank to ensure filling of an undersubscribed loan was inflationary, but that any subscription by a trading bank was not. The discussion was adjourned inconclusively with agreement that it should be carried further the following month.

As it happened this meeting did not occur until September 1941 when the real issue was quite a different one. The delay was caused in part by the illness and death of the Governor of the Commonwealth Bank,⁷ and by the preoccupation of the Government with the more serious events of 1941. The Opposition kept the promise of a meeting alive both in the Council and in the House, but did not press the issue to a conclusion. By September the use of the Commonwealth Bank for war finance had become one part of a more far-reaching political crisis over financial policy which had little more than formal connection with the episode of November-December 1940.

But meanwhile concern about the risk of inflation was growing among the Government's technical advisers. At this stage the Commonwealth Bank Board was apt to look suspiciously at all financial proposals as carrying the seeds of inflation, and it does not seem that its views at this time on the point carried great weight. On the other hand the Financial and Economic Committee had concerned itself with the problem of impending inflation almost from the beginning, when inflation was a very small cloud indeed, and increasingly its meetings concentrated upon discussion of measures both financial and otherwise which it thought would be sufficient—given the political reluctance of the Government to tax—to prevent or limit threatened inflation.

In retrospect it may seem at first sight that the committee was in December 1940 over-concerned with a problem which did not become real until after Pearl Harbour. The lag in war expenditure behind estimates, the comparatively modest rises in prices and wages, and the continuance into 1941 of some unemployment, hardly suggested immediate inflationary risks. To some extent the impression is correct, but it is also undoubtedly true that the constant stress on the problem of preventing or curtailing inflation did influence government policy in ways which could not be precisely demonstrated. Had the Financial and Economic Committee not been perhaps over-concerned with the risk of inflation in 1940 and 1941 the risk itself would certainly have been greater.

It was against this general attitude that the Financial and Economic Committee discussed the various problems and proposals in the field of finance as they emerged in the latter months of 1940 and through 1941. In part it was merely reflecting general thinking in other parts of the government organisation, but on many points the committee took the initiative and increasingly formulated ideas with regard to the inflation which it feared. With increasing frequency there appeared ideas for curtailment of spending in general rather than merely restricting capital

⁷ Sir Harry Sheehan.

ELECTORS! —

Before Voting read the following paragraphs carefully—

Question the Candidates—

Vote for the Candidate who will carry out your wishes.



Our war effort is limited only by our physical capacity to produce the munitions, foodstuffs, etc., necessary to maintain our fighting forces.

It is not in any way limited by our capacity to save money or pay taxes, nor by the amount which can be diverted from normal channels of spending through the agency of chocolate wheels or lucky dips.

That the cost of the war is made up of payments for the wages of soldiers, for their maintenance and clothing, and for armaments and munitions.

All these things are paid for from day to day. Soldiers, munition workers, manufacturers; in short, all who render service receive payment while the war is being waged.

At the conclusion of the war, despite the fact that all accounts have been discharged, the whole cost will still remain—A DEBT.

To finance the war with "loan" money means that the community, having already paid for it by contributing their services, will have to perform the same amount of service a second time, plus the interest charges, to enable the alleged "loans" to be repaid.

By far the greater part of the money to finance the war will be provided, **NOT FROM TAXATION AND GENUINE SAVINGS, BUT BY AN EXPANSION OF BANK CREDIT, CREATED AT VERY LITTLE COST.**

In return for this slight service, the banks will receive interest bearing securities amounting to probably 80 per cent. of the total cost of the war.

In return for their expenditure of physical energy, which provided the concrete realities which go to make up the war effort, the people will receive no credit, but only a **CRUSHING BURDEN OF DEBT.**

TO WIN THE WAR — USE 504

(P.T.O.)

Issued by the Democratic Vigilance Committee (Melbourne).

"Use 504" refers to the paragraph so numbered in the Report of the Royal Commission on Banking (1937), which incautiously admitted the possibility of interest-free loans from the Commonwealth Bank to the Government.

investment, and more and more interest in non-monetary measures appeared. For instance the Financial and Economic Committee devoted a good deal of attention to the idea of trying to steer consumption so as to achieve overall reduction in consumer spending as well as a limitation of consumer competition with the war effort. It continued to stress the necessity of restricting competition with government borrowing, and in particular pressed for intensification of restriction on private investment as, for example, its persistence with the control of building and building societies' finance, and its championing of control of undistributed profits against the more conventional business attitude of the Capital Issues Board. It still saw considerable virtue in compulsory loans, in the existing political situation, as a practicable way of getting subscription in ways that were not inflationary. Along one direction this led to the abortive National Defence Contribution. On the other hand, in examining how the banking system was to fit into the machinery of public finance and of control of private transactions, it adopted ideas which were in effect the basis of the later requirements that the trading banks should make deposits in special accounts with the Commonwealth Bank.

The fact that the committee concentrated on questions of this type does not mean that they were thinking only of the raising of loans. They lost no opportunity to press their views on taxation, but the minutes of their meetings reveal how often they accepted the impossibility of the Government's agreeing on any policy of taxation on a range and a scale of severity calculated to meet the needs of the situation. Consideration of the political problems of increasing taxation led to the examination of the problem of State government finances, in the course of which the restriction of State borrowing and the giving of priority to Commonwealth over State taxation coalesced in the one general problem of subordinating State finance to war finance, and in the event it was curtailment of State taxing rights which proved to be far more important. The Financial and Economic Committee did not originate all these discussions; in many cases it did little more than register discussions which were in progress elsewhere; but throughout it had high influence as the Treasurer's adviser on financial policy and over and over again, as in the special case of the banks or the principle of the later uniform income taxation, the central idea had effective origin in the committee. The record of the deliberations of the committee is thus not only of importance as a convenient summary and bringing together of the strands of evolving government policy; its ideas were listened to. Probably even more important was the fact that a number of its leading members were influential in the formation of policy in other places, although the increasing absorption of those members in administration was ultimately a major factor in the decline of the committee.

The development of control over private capital transactions from the later part of 1940 was in part a general tightening up of existing restrictions and a closing of loopholes in them; in part the extension of the principles of restriction to new fields. But underlying both was increasing

CAPITAL ISSUES: Summary of approvals since 4th December 1939.

Period	Registration of New Companies		Issue of Capital				Mortgages or Charges			
	No.	Amount of nominal capital £ 000's	No.	New Money £ 000's	Other Issues £ 000's	Total £ 000's	No.	New Money £ 000's	Renewals £ 000's	Total £ 000's
4 Dec 1939 to 2 Mar 1940	157	7,757	297	5,364	5,648	11,012	116	5,248	1,521	6,769
3 Mar 1940 to 1 Jun 1940	117	5,942	236	3,943	3,024	6,967	154	2,907	15,238	18,145
2 Jun 1940 to 31 Aug 1940	80	3,370	209	2,205	6,726	8,931	286	1,994	5,818	7,812
1 Sep 1940 to 30 Nov 1940	48	4,773	152	3,781	2,177	5,958	207	4,902	3,843	8,745
1 Dec 1940 to 28 Feb 1941	37	1,243	181	4,706	1,141	5,847	147	2,329	2,942	5,271
1 Mar 1941 to 25 Apr 1941	43	571	114	1,136	853	1,989	103	788	2,263	3,051
Sub-Total (a)	482	23,656	1,189	21,135	19,569	40,704	1,013	18,168	31,625	49,793
1 Dec 1940 to 28 Feb 1941	116	252	110	70	78	148	—	—	—	—
1 Mar 1941 to 25 Apr 1941	36	75	35	19	27	46	—	—	—	—
Sub-Total (b)	152	327	145	89	105	194	—	—	—	—
Grand total of approvals	634	23,983	1,334	21,224	19,674	40,898	1,013	18,168	31,625	49,793

(a) Omitting companies having a nominal capital not exceeding £2,500.

(b) Companies having a nominal capital not exceeding £2,500.

Source: Financial and Economic Committee papers.

concern over the real resources which were behind monetary transactions and recognition that control of these sums of money was less important in its effect on subscriptions to government loans than in its effect on the availability of labour and materials. As part of the process of tightening existing restrictions the limit of £2,500 in company finance was abolished in December 1940 because of the accumulated evidence that it was being very widely avoided.⁸ There was more reluctance to attack the problem of the disguise of loans by the making of paired transactions for sales and purchases.⁹ This was initially most important as a means of avoiding the mortgage restrictions, and opinion settled upon a power to control all sales of real estate in excess of some reasonable figure as the most practical means of control. Finally regulations provided in July 1941 for control over land transactions (within metropolitan areas, but any area might be specified by the Minister) in excess of £10,000.¹ Subsequent administration, especially as the area of control extended, proved very difficult because of widespread evasion. Control only covered one form, even if the most important, of paired transactions and did not include, for instance, associated sales of and future repurchase of goods. A third form of tightening up was the lowering of the limit of mortgages for which consent was required to £2,500 from December 1941.² This had been under consideration for some time but implementing was delayed by the change in government and the reconstruction of the Capital Issues Board.

The finance of building through building societies had been considered repeatedly. They were the principal source of finance for owner-builders, and there was therefore great political reluctance to interfere with their activities. On the other hand their financial structure facilitated evasion (especially the device of withdrawable shares) because they provided what was virtually a large loophole in control of deposits and deposit rates of interest. Moreover their freedom from restriction was unwelcome to other institutions whose deposits were controlled. It was not until July 1941 that certain categories of building society shares were declared to be deposits for the purpose of control.³

Building was one of the fields in which the area of investment control was extending. Until after the middle of 1940 there was considerable resistance to restriction of amounts available for new building, justified partly by the state of employment in the building industries. From July onwards, however, the Financial and Economic Committee pressed for control, and the Treasury supported them, on the grounds of the increasing need to transfer building resources to war purposes. In the end the Capital Issues Board yielded, and in the first instance it was required that new building operations exceeding in cost £5,000 should be subject to a permit.⁴

⁸ Statutory Rules 1940, No. 291, 18 Dec.

⁹ That is, an agreement to sell coupled with an agreement for later repurchase with a difference in price that represented interest on the implied loan and even a premium against the risk of monetary depreciation.

¹ Statutory Rules 1941, No. 150, 4 Jul.

² Statutory Rules 1941, No. 304, 17 Dec.

³ Statutory Rules 1941, No. 150, 4 Jul.

⁴ Statutory Rules 1940, No. 250, 15 Nov.

CAPITAL ISSUES
 Refusals for 12 months ended 25th April 1941

General Classification	No.	Amount £ 000
Primary Production	3 (a) 11	156
Mining	3 (a) 20	2,975
Public Utility	2 (a) 3	8
Finance: Cash orders, etc.	2 (a) 5	32
General	11 (a) 24	477
Manufacturing:		
Producers' goods	7 (a) 46	1,262
Intermediate	10 (a) 13	466
Consumers' goods	6 (a) 32	385
Retail	6 (a) 34	333
Wholesale and Distributors	3 (a) 18	63
Amusements	2 (a) 20	125
Miscellaneous	2 (a) 13	57
Local Authorities	3	126
Building	4 (a) 26	549
Hotels	2 (a) 4	294
Transport	8	75
Hospitals	3	284
Total	63 (a) 283	7,667

(a) Amount of capital involved not stated. It is unlikely, however, that the total of all refusals exceeded £10,000,000.

Source: Financial and Economic Committee papers.

CAPITAL ISSUES

Refusals for 12 months ended 25th April 1941

Reason	No.	Amount £ 000
Non-essential	13 (a) 89	1,198
Duplication	30	537
Doubtful use or value	3 (a) 29	581
High interest rate or unfavourable terms	32 (a) 44	904
Other unfavourable financial circumstances	8 (a) 61	3,246
Poor prospects	3 (a) 16	1,090
Indefinite reason	4 (a) 14	111
Total	63 (a) 283	7,667

(a) Amount of capital involved not stated. It is unlikely, however, that the total of all refusals exceeded £10,000,000.

Source: Financial and Economic Committee papers.

This blanket restriction was not very effective and it took some time for administrative technique to be improved, during which the range of buildings exempt from a permit was progressively narrowed. In February 1941 additions to hotels needed a permit if cost exceeded £1,000; in April the general limit was reduced to £3,000. It was necessary to work out principles for the application of these restrictions which in their general form conflicted with the war demands sponsored by other departments. Thus the fulfilment of export contracts demanded a great deal of building, which was permitted when the Department of Commerce sponsored it. It was less easy to check claims about the necessity of buildings for businesses fulfilling government orders for the Departments of Supply and of Munitions, or the private building of houses and flats in some areas where the Department of Labour and National Service was able to establish the need. The problem was how to tie the particular buildings to the housing of war workers. As time went on building restriction became more and more drastic and to a greater extent, especially in war workers' housing, the Government itself took direct responsibility. It was never possible to prevent a very great deal of minor evasion. It was fortunate that the principle was introduced at a stage when these problems of administration

and enforcement could arise and be dealt with in comparatively leisurely manner. This control of building was perhaps the most conspicuous example in this period of the way in which a policy which began by aiming at transfers of sums of money, which it was hoped to divert to loan subscriptions, moved progressively to the point where it was aimed at materials and labour which it was hoped to divert to war purposes. The sums of money specified as permissible for various purposes were merely administrative devices for measuring the quantity of resources involved and were more and more supplemented by requirements for detailed specifications.

Two other extensions of investment control which were actively discussed in this period did not in that form come to much, precisely because it was not possible in these cases to administer a financial control in ways that would affect the real resources involved. One of these was consumer finance in the form of hire purchase and cash orders. It would seem that pressure for review of these came from other trading interests who were being forced to restrict their activities and objected to the considerable extension of trade finance in these ways. There was also a good deal of concern about what were believed to be the unduly harsh terms of this form of lending. When the matter first came up in November 1940 it was thought sufficient, initially, to impose restriction by way of trading bank advances to companies doing this form of business. But a committee to investigate further was set up, although it did not report until August 1941, and then most of its proposals were concerned with what it believed to be opportunities for exploitation of consumers and excessive rates of profit by traders.⁵

Far more important was the second question, of undistributed profits, which was the subject of prolonged dispute between the Financial and Economic Committee and the Capital Issues Board. To the committee it appeared that the existing modest tax on such profits made little difference to the availability of large reserves which could be used to extend non-essential business, and which would quite often mean that established business needed no consent to develop in fields for which a new business would require, and would not be given, Capital Issues' consent. They discussed various ways of applying control with a tendency to decide in favour of some form of compulsory investment of undistributed profits in government loans. The Capital Issues Board on the other hand reflected conservative business opinion which saw this as an unwarranted interference with the internal financial structure of companies and an unfair handicap on the competitive position of established business. It was able to reinforce objections of this type by pointing out that control of undistributed profits had no automatic relation to the use of scarce resources, and could only be made to have such a relationship by an elaborate system of investigation and permits which would not mitigate complications created for company finance structure. The board, as time went on, retreated somewhat from its original uncompromising opposition; in fact by September 1941 its

⁵ *Parliamentary Papers* 1940-41, Nos. 52 and 53.

Sydney sub-committee was attacking the freedom of companies to expand operations by the use of reserves. But the problem was never resolved by the direct approach favoured by the Financial and Economic Committee and was in part met by the development of other devices such as tightening of control over the trading banks and their advances. In part control was made unnecessary in the more serious stages of the war by the multiplication of direct controls over materials and equipment, which made it increasingly difficult for companies to spend their reserves in uncontrolled expansion.

Restriction of private investment through the agency of the trading banks had been considered in particular contexts. Thus in November 1940 the Capital Issues Board thought that the unwanted expansion of hire purchase could be kept within bounds through self-denying restrictions by the banks on their advances to hire purchase companies, while four months later the Financial and Economic Committee believed that the Commonwealth Bank could effectively influence the lending policy of the trading banks to curtail building. But by the end of 1940 the issue had become a much wider one: there was a marked rise in the cash reserves of the trading banks and it was evident that government finance, with its reluctance to impose stiff taxation, was progressively increasing bank liquidity as government spending rose. Accordingly the question became one of preventing the normal expansion of bank lending which, it could be expected, would be based upon this liquid cash position, especially as the trading banks were showing no great enthusiasm for investment in government loans.

In December 1940 the problem was actively discussed in the Treasury, the Financial and Economic Committee and by the Commonwealth Bank Board. Three lines of approach were considered. The first proposed that the Government should accept no subscriptions to loans from the trading banks but only from the Commonwealth Bank, while the liquidity of the trading banks should be dealt with by adopting a proposal of the Banking Commission of 1937. This proposal rested upon recognition that the traditional techniques of central banking (bank rate, rediscounting, open market operations and the like) were ineffective in the Australian context, more particularly because of the restricted money market. The banking commission recommended that in these circumstances the Commonwealth Bank's power as a central bank should be greatly strengthened by providing that from time to time the minimum reserves to be kept by the trading banks should be specified by the Commonwealth Bank (with the consent of the Treasurer), it being an essential part of the proposal that neither maximum nor minimum limits should be set for the percentages which might be required. In the wartime context this would have meant very complete power to immobilise the growing liquid reserves of the banks. The second line of approach was to restrict government borrowing from the banks, primarily from the trading banks, calling upon the Commonwealth Bank only to the degree that might be necessary in this event to maintain trading bank liquidity. It was regarded as essential that this

approach should be accompanied by a limitation of bank profits to the pre-war standards with payment of all excess profits to the Treasury, and reduction in deposit interest rates. The third proposal was that the Government itself should in effect become a bank by borrowing from the public (offering slightly higher rates than those to which the banks were restricted) in exchange for short-term securities which could be cashed at any time at a slight discount. This would have had the effect of drawing to the Government a substantial part of the fixed deposits with the trading banks.

Discussion of the proposals was somewhat inconclusive. The first proposal was unwelcome not only to the trading banks but also to the Commonwealth Bank Board in that, while it would have met the wartime problem, it was likely to prove a permanent change in the banking system. The second, borrowing mainly from the trading banks, was certain to be the subject of vigorous political attack which a government with a slender majority could scarcely invite. The third, borrowing from the public by what were in effect fixed deposits, raised many administrative difficulties, and, since the Treasury would have had no choice but to use the Commonwealth Bank as its agent in dealing with the public, the distinction it was intended to make between the Commonwealth Bank as a trading bank and the Treasurer's appearance in this form, would not appear very real to the public or the trading banks. (It must be remembered that the Government of the day and the Bank Board both accepted the view that the Commonwealth Bank should not engage in active competition with the trading banks and the trading banks were especially watchful for any appearance of competition.)

The issue dragged on in negotiations with the trading banks, who rather spoilt their own case by submitting proposals which would have given them substantial freedom from special control and which did not even agree to the supply of information to the Commonwealth Bank concerning bank advances and growth in deposits. As the early months of 1941 went by, the case for some form of effective action became stronger as threats of inflation became more marked, and the opinion of the Government's advisers hardened in favour of something along the lines of the first proposal outlined above. But the Government as well as the Bank Board clung to the hope of securing action by agreement. The mounting criticism of the Government's financial policy had its effect on the trading banks, and they were ultimately prepared to agree to restrictions which went a considerable distance towards what the Government's advisers wanted.

The terms of the undertaking which they gave were announced by the Treasurer in his budget speech in September 1941 although they were known somewhat earlier. The text was as follows:—

The trading banks have no intention and no desire to make excess profits arising from war conditions.

As a wartime measure and with the object of ensuring that additions to their funds owing to war conditions will not be used to make excess profits or to extend advances in any way contrary to the national interests, they agree to place all surplus

investable funds accruing in their hands on deposit with the Commonwealth Bank as special wartime deposits, and agree to the Commonwealth Bank making appropriate variations in the rate of interest thereon to ensure that no excess wartime profits arise.

To achieve the objects set out above the trading banks give the following firm undertaking:—

- (1) They will not make new advances or grant increases in existing advances except in accordance with the policy laid down by the Commonwealth Bank from time to time and to ensure conformity therewith will supply to the Commonwealth Bank a monthly analysis of new and increased advances in a form approved by the Commonwealth Bank.
- (2) Before purchasing or subscribing to government or semi-government loans, the trading banks will obtain the concurrence of the Commonwealth Bank.
- (3) The trading banks will make available by way of deposits with the Commonwealth Bank all surplus investable funds accruing in their hands, i.e., all funds over and above those necessary to enable the banks to meet the overdraft requirements of the public in accordance with the advance policy laid down by the Commonwealth Bank, and those funds necessary for the protection of their depositors. The deposits will be made at such low rates of interest as will avoid the trading banks making excess profits out of war conditions. These rates will be fixed by the Commonwealth Bank from time to time.
- (4) They will advise the Commonwealth Bank periodically what funds become available as above and the Commonwealth Bank will decide the total amount of deposits required from the trading banks from time to time.
- (5) Such deposits will be made in a special wartime deposit account and will be for a term of six months. They will be renewed as they mature unless in the opinion of the Commonwealth Bank they are necessary to the trading banks for purposes mentioned in paragraph (3) hereof.
- (6) They agree to supply the Commonwealth Bank with such certificates from the Commonwealth Commissioner of Taxation as will enable that bank to satisfy itself that the undertaking herein regarding profits is being observed.*

The arrangement was operative on a voluntary basis for a brief period only because of the change in government. Its terms were one of the items most hotly attacked by the Opposition in the budget debate which preceded the defeat of the Government. In the course of the debate it became clear that Labour's opposition was as much to the tenderness with which the Government had sought the consent of the banks as to the specific points in the agreement, and the new Labour Government, as will be seen, proceeded by imposing control which, while going further than that which the banks had agreed to, was along the same line of approach.

THE DILEMMA OF FEDERAL FINANCIAL RELATIONS

While the controls over private investment were thus being tightened the situation as between the Commonwealth and States in the loan market had moved to the point where the volume of loan money available to the States had ceased to be seriously competitive with the war borrowing of the Commonwealth. A brief review of the changing emphasis will make this clear. In June 1939 the Loan Council programme provided for only £4,000,000 of loan money for the Commonwealth, compared with

* *Commonwealth Debates*, Vol 168, p. 576, 25 Sep 1941.

£27,100,000 for the States. After war broke out the next meeting of the council approved of very nearly the same amount for the States (£26,250,000), but the Commonwealth figure had jumped sharply to £33,750,000; and in the budget the Commonwealth loan programme contemplated a total of £46,000,000. The special loan from the banks in December 1939 allocated £10,000,000 for works and only £2,000,000 for defence; the £18,000,000 loan of March 1940 provided £10,000,000 for works. Two months later, however, the whole of the £20,000,000 loan was for defence and it was at this time that the Loan Council approved a Coordinator of Works with his function of scrutinising works expenditure, which in this context meant primarily the expenditure of the States.

It will be recalled that in August, following his report, the Loan Council reduced the States programme from £24,000,000 to £17,000,000 and in accordance with this policy the £28,000,000 loan of November allocated £20,000,000 to defence. This was the turning point, and thereafter the claims of the States for loan money, other than for what were in fact defence works, ceased to be a serious issue. At the same time, relations between the Commonwealth and States on this point were complicated by the lag in Commonwealth expenditure behind nominal plans, which left the way open to the States to exploit concern about unemployment by continuing a rearguard action to maintain as far as possible their works financed by borrowing. From late 1940 onwards, concern about the lag in expenditure mounted. In October 1940 the Coordinator of Works drew attention to some figures of works which were estimated to cost £23,000,000 of which £20,000,000 was intended to be spent in the financial year 1940-41 but for which, to the end of September, financial approvals had reached only £13,000,000 and actual expenditure barely £4,000,000. Illustrations of the same sort in specific fields multiplied, and it became apparent that there could be no simple explanation of the lag nor even a simple assumption that such figures really pointed to delay and inefficiency in administration. It was not possible to get a clear picture if works financed from loan were separated from those financed from current revenue; while the highly fluid nature of the plans of the Service departments made it extremely difficult for Treasury officers to get reliable figures of what plans were likely to cost. In any case there was the inevitable tendency on the part of these departments to give themselves freedom to modify plans as the war developed by being optimistic as to the rate at which projects could be carried out and somewhat generous in their estimates of cost. This fact alone would have ensured some nominal lag. There was, moreover, a disposition in defence departments not to recognise the amount of time that was necessarily involved in planning and preparation of large new projects, or the building up of constructional and administrative organisations; so that expectations of what could be achieved were likely to be disappointed for no more serious reason than that optimism outran capacity.⁷

⁷ An indication of the amounts which were, in fact, spent from all sources on works and buildings up to June 1942 is given in the following table:—

At the same time it was true that there were apparently justified complaints of the slowness with which financial procedure was carried out and the delays on the part of the Department of the Interior in implementing plans. In the face of this situation the States were disposed to resist further pressure for reduction of their loans, the more so because, of necessity, the works coordination procedure entailed review in detail of proposed State works. The States were inclined to see this as an unwarranted interference with their freedom to determine specific uses of funds which had been approved, but it was in fact a reflection of the gradual transfer of emphasis in all discussion from the nominal quantities of money involved to the competing demands on scarce resources which were implied by various specific ways of spending money.

The meeting of the Loan Council at the end of January 1941 was nevertheless able to agree that the scheme of works coordination, to which the States' approval had originally been tentative and reserved, should be continued. The pleas of the States for greater flexibility were to some extent met by rules which required them to adhere "as closely as possible" to approved programmes, to refrain from substituting in the programme other works for those approved by the Loan Council, unless the State was prepared to declare the substitute work essential and urgent and submitted the proposed substitution to the Coordinator of Works before action.

This renewal of the arrangement registered the achievement for practical purposes of control over State loan works, even though in detail the process of coordination continued to involve many problems. It was underlined by the decision of the Loan Council in August 1941 that for the financial year 1941-42 loans other than for defence should not exceed £20,000,000, of which semi-government and local authorities should receive only a little over £5,000,000.

It was becoming increasingly clear during the early months of 1941 that the policy of eliminating competitors in the loan market, by restricting private investment and curtailing State works, was reaching the limit of practical politics, and the issue was persistently raised by the Financial and Economic Committee of the incompatibility of heavy reliance on loans and the avoidance of inflation. In public discussion the failure of the Government to impose taxation (the type of tax considered and the degree of increase were apt to vary with the political views and the economic position of the commentator) became one of the main forms of attack upon

	1938-39	1939-40	1940-41	1941-42
		£A thousands		
Navy: Bldgs and Works	—	618	775	979
Graving Dock	—	—	435	1,302
Army: Bldgs and Works	417	4,045	7,221	9,504
Air: Bldgs and Works	1,538(a)	1,748	4,720	9,654
Munitions: Bldgs and Works . .	463	751	4,062	10,268
Supply: Bldgs and Works	—	6	8	10
Aircraft Production:				
Engine factory (incl. equipment) .	—	357	997	416
Other works	—	127	75	66

(a) includes aircraft, equipment and stores.

Source: *Commonwealth Year Book*.

a ministry which was becoming more and more insecure. A convenient way of summarising the tax questions that were thrown up is the review in February 1941 by the Financial and Economic Committee of the financial future of the next year or so. Many of these questions did not originate in the committee and their discussions and conclusions did not always follow the same lines of more public and politically-coloured discussion, but theirs were the views which were at least considered by the Government, even if the budget of September contained only limited acceptance of their advice. The committee accepted reluctantly the view that for the financial year 1940-41 imposition of further taxation was impracticable, and therefore concentrated their attention on the prospects for 1941-42. They believed that, measured at current prices, war expenditure within Australia would reach £180,000,000. Existing rates of taxation, when account was taken of customs and sales taxes, might provide £70,000,000. This left a problem of finding £110,000,000 for war, together with £20,000,000 for State works. They did not believe that the loan market would provide as much as £70,000,000 without inflation, so that there was a problem represented by the gap of £60,000,000 to £70,000,000 over these figures. Extension of income tax to the lower incomes was seen as depending upon some sort of political bargain in which the most promising lines appeared to be a heavy increase in the tax on higher incomes; and a stiff excess profits tax which, the majority were disposed to suggest, should be at the rate of 100 per cent together with some sort of levy on wealth. They contemplated that on incomes exceeding £1,000 the maximum rate of Commonwealth and State taxes combined might be 16s in the £. This was expected to yield £8,000,000. While the extension of taxation to lower incomes could not be so precisely stated, it might provide £24,000,000 to £34,000,000. The committee returned to its controversy with the Capital Issues Board and raised again the question of an undistributed profits tax. There was continuous discussion of a tax on advertising; a capital gains tax; a security dealings tax; a tax on increments in land values; and a general excess income tax based upon wartime increases in income. While the committee discussed tax measures of this type, which at the time looked exceedingly drastic, its estimate of the political possibilities is indicated by its passing on to some tentative discussion of the way in which inflation would multiply the need for direct controls, and its detailed discussion of the control of bank lending which has already been recorded.

The introduction of payroll tax⁸ was seen by the public as one instalment of a political bargain with a view to extending taxation to lower incomes, but any comprehensive increase in rates of income tax, especially on the higher levels, was made difficult because of the problems created by the combination of Commonwealth tax with the income taxes of the several States with their varying scales and divergent conditions.

⁸ Acts Nos 2 and 3 of 1941. The legislation was introduced in Parliament on 26 Mar 1941, and the tax commenced on 1 Jul 1941. It was intended "to provide additional revenue for the payment of cash allowances for the benefit of children". One result was the improvement in employment statistics which is referred to elsewhere in this volume.

The interrelation of Commonwealth and State taxes had been a "problem" since Federation, but now became a new and sharper issue. As early as September 1939 in the debate on the first war budget the Assistant Treasurer stated the problem as it was then seen: "... the Commonwealth cannot discriminate between States; any taxes that it imposes must apply throughout the Commonwealth. In contemplating further imposts, the Commonwealth must have regard to the effect on incomes in all of the States."⁹ There were many divergences in State income tax policies, the most important being in rates of progression. There were differences at various levels of income, but attention was concentrated on those at high incomes. In 1939 the maximum rates per £ for the various States were:¹

	Personal Exertion	Property
N.S.W. . . .	11s 8d	12s 10d
Victoria . . .	8s 6d	10s 9d
Queensland . . .	15s 0d	16s 2d
South Australia . . .	11s 6d	12s 11d
Western Australia . . .	11s 9d	12s 11d
Tasmania . . .	13s 7d	14s 9d

The rough and ready device adopted hitherto for meeting this diversity had been to allow State tax as a deduction from taxable income for Federal purposes, which served well enough when Federal tax was low. But it was quite inadequate as a means of reconciling diverse State rates if Federal rates became high, unless the effect on individual taxpayers were disregarded—a quite impossible way out. Until 1941 the problem was met by restricting increases in Federal tax on high incomes and in seeking other sources of revenue than income tax. The validity of rebating State income tax was not beyond doubt, since it meant that the actual Federal assessments were unequal as between residents of different States. As the war became more serious, Federal rates did rise, prompting acutely questions of equity, while Labour's demands for stiffer taxation of the wealthy made it more and more necessary politically to find a solution.

Mr J. H. Scullin,² recognised on both sides of the House as technically expert and shrewd in taxation matters, repeatedly returned to the problem. As early as May 1940 he stated what became at bottom the basic principle followed by Labour in its definitive uniform tax solution two years later: "I have yet to learn that it is the obligation of this Parliament and of this taxing authority to adjust the taxation of the States. That is what this means. We should impose whatever tax we think is equitable, and, should any other authority impose what we consider is not equitable, let it be dealt with by its own people." He admitted that, politically, it was necessary to pay some regard to State taxes "but I suggest to the Treasurer that the Commonwealth has been over-considerate to the men

⁹ *Commonwealth Debates*, Vol 161, p. 657, 15 Sep 1939.

¹ *Commonwealth Debates*, Vol 161, p. 657.

² Rt Hon J. H. Scullin, MHR 1910-13, 1922-49. Prime Minister and Min for Industry 1929-32; Treasurer 1930-31. B. Trawalla, Vic, 18 Sep 1876. Died 29 Jan 1953.

on the higher incomes, because of the existence of high State taxation on such incomes".³

Nevertheless the Government accepted the traditional view. In presenting the November 1940 budget the Treasurer reiterated "State taxation in the highest taxed State . . . virtually sets the limit beyond which the Commonwealth cannot go".⁴ Scullin was not deterred and returned to the attack with a series of suggestions.⁵ Political unification was the only final solution, but leaving that aside as beyond attainment he urged an all-party conference with the States to iron out discrepancies in tax scales, and to consider whether the States should not abandon income tax in return for the Commonwealth abandoning estate duties, entertainment tax and other taxes. (Land tax he would not surrender since some State upper houses would reduce it to very low levels.) Failing agreement he proposed that the Commonwealth levy a uniform tax equal to the combination of rates in the highest taxed State and Commonwealth rates, allowing State tax paid as a deduction from Commonwealth *tax payable* (not from taxable income). All similarly-situated taxpayers would then pay the same total tax wherever they lived. To meet the obvious objection that the States could then poach Commonwealth revenue without offending taxpayers, simply by raising their rates, he suggested pegging the deduction at the levels of State rates in 1940-41.

Soon after this the Financial and Economic Committee discussed a proposal by one of its members, Professor R. C. Mills⁶ "that the Commonwealth should under its wartime powers exclude the States from the income tax field, raise one uniform Commonwealth tax, and pay the States their collections in 1940-41. The Commonwealth Grants Commission could then consider applications from any State for grants on account of special disability caused by this".⁷ Other members were not prepared to go beyond putting it as one of a series of possible alternatives. They did not expect the States to agree to any of the proposals then being put to them; they rejected the solution which later was the first stage of the Curtin Government's answer, that of raising tax rates without regard to the discriminatory result. The Mills proposal, the committee thought, ought to be considered next, but as both the Government's willingness and its constitutional power to adopt the plan were doubted, members were inclined to fall back again on compulsory loans.

The Government showed no enthusiasm for seeking agreements with the States, naturally enough in the light of forty years' experience of their futility. Mr Spooner,⁸ a member with experience of State politics, commented:

³ *Commonwealth Debates*, Vol 163, pp. 611, 612, 8 May 1940.

⁴ *Commonwealth Debates*, Vol 165, p. 199, 27 Nov 1940.

⁵ *Commonwealth Debates*, Vol 165, pp. 990, 991, 993, 12 Dec 1940.

⁶ Professor R. C. Mills, OBE. (BEF 1916-19: Capt, 61 Siege Bty RGA.) Prof of Economics, Univ of Syd 1922-45; Chmn C'wealth Grants Commission 1941-45; Chmn Universities Commn 1942-52; Dir C'wealth Office of Educn 1942-52. B. Ardmona, Vic, 8 Mar 1886. Died 6 Aug 1952.

⁷ Minutes of Financial and Economic Committee, 3 and 4 Feb 1941.

⁸ Hon E. S. Spooner. MLA NSW 1932-40. MHR 1940-43; Min for War Organisation of Industry 1941. B. Sydney, 2 Mar 1891.

Seven years' regular attendance at the Australian Loan Council convinced me that the autonomy of the States is doomed. Three years' attendance in this and other capital cities at conferences of State and Commonwealth Ministers seeking to find a formula for a uniform tax bill convinced me that uniform taxation by agreement between seven governments is an idle dream.⁹

But while not enthusiastic the Treasurer, Mr Fadden, was not idle. His November 1940 budget speech had left future approaches to the States open, and in February 1941 a series of possible arrangements was put to the States, none of which was acceptable. Accordingly in June a conference of Premiers was presented with a definite proposal: the States to abandon income tax for the duration of the war and one year (changed in discussion to an initial period of one or two years); the States to receive £30,000,000 from the Commonwealth, of which £5,500,000 was to be divided "in any way to which the States can agree" and the remainder on a population basis.

Fadden summarised the conflicting arguments at this abortive conference:

The main arguments advanced by the States were—

- (1) That the plan was, in fact, an interference with State sovereign rights which the State governments had no mandate to accept.
- (2) That its effect in some States might be to limit social services at present being provided, and possibly to prevent a government from giving effect to the policy upon which it was elected.
- (3) That the plan would result in the additional taxation necessary for war purposes being imposed in a way which discriminated against certain States.
- (4) That the additional Commonwealth taxation might, in fact, be applied, not to war purposes, but to the provision of additional Commonwealth services.
- (5) That an equitable division of the compensation offered by the Commonwealth would in practice be impossible.
- (6) That the proposals were, in fact, unnecessary as the Commonwealth's taxation powers were not yet fully used.

The Premier of South Australia stated that his government was prepared to co-operate with the Commonwealth in any plan which would ensure that the States could continue to function effectively, but on the understanding that the arrangement would be for a short period only, and that the Commonwealth would give an undertaking to revert to the rates of taxation operating before the scheme commenced.

In reply to the States' arguments I can only say—

- (1) That the Commonwealth did not contemplate any permanent surrender of State rights, but merely a temporary suspension of taxation powers.
- (2) That, in our view, the difficulties which we admit the plan created for some of the States were in no case so serious that the present emergency did not justify the Commonwealth in asking the States concerned to accept them.
- (3) That the criticisms of machinery and details were capable of being met had the scheme been reviewed in a spirit of goodwill and co-operation.

⁹ *Commonwealth Debates*, Vol 165, p. 995, 12 Dec 1940. "Uniform tax" then meant uniformity in rate schedules between States and in other conditions between all seven authorities, not one Commonwealth tax as it did in 1942.

He gave no hint of future intentions beyond the statement "The Commonwealth will now go ahead with the framing of its own financial proposals for 1941-42."¹ These proved to be, in principle, one of the plans put forward by Scullin in December 1940. In his budget of September 1941, Fadden proposed the assessment (as distinct from collection) of one uniform and inclusive "national contribution". From the amount assessed would be deducted State income tax paid in the previous year, and Federal income tax payable in the current year. The remainder, if any, would be collected as a compulsory loan with interest at 2 per cent, designated "wartime contribution", and repayable after the war, or earlier in certain special circumstances.²

The unhappy marriage of an all-inclusive levy on the Scullin lines with deferred pay on the Keynes model disguised that part of the purpose which was aimed at diversity of State tax rates, and discussion, mainly hostile both in and out of Parliament, concentrated on the compulsory loan rather than on the uniform assessment. Labour naturally attacked the levy on very low incomes, but there were other features open to reasonable criticism. One of the vital independent members, for instance, declared: "If the war continues for a sufficiently long period, Victoria will be able to buy Queensland out of its loan credits, but the people of Queensland are to be asked to pay part of the interest upon the compulsory loans that the more favoured States will be piling up for the post-war period."³ None of these issues was, in the event, important and the new government solved the problem in an altogether different way.

THE CHANGE OF GOVERNMENT, OCTOBER 1941

The budget of September 1941 was the occasion, though not the primary cause, of the collapse of the non-Labour Government and the inauguration of the Curtin⁴ Labour Government. For this reason the budget never operated—although its estimates were perforce the basis of the first Labour budget—but for the same reason its details are worth consideration. The analysis of the disintegration of the Menzies ministry is pursued in a political volume of this history. Here it may be noted that the two independent members voting against the Government—either vote would have been sufficient—each stressed that the need for a government free of dissension and able to evolve a consistent and vigorous policy was the critical issue. The evidence confirms their sincerity, and, seen in sequence with its predecessors, the September budget appears as the last extension of the difficulty of the Menzies-Fadden Government, given Australian political divisions and the state of the parties in Parliament, in pursuing a vigorous policy of economic organisation for war by methods which were simultaneously effective and acceptable to the public. It was the last

¹ *Commonwealth Debates*, Vol 167, pp. 903-4, 4 Jul 1941.

² *Commonwealth Debates*, Vol 168, p. 574, 25 Sep 1941.

³ *Commonwealth Debates*, Vol 168, p. 709, 3 Oct 1941.

⁴ Rt Hon J. Curtin. MHR 1928-31, 1934-45; Prime Minister and Min for Defence 1941-45. B. Creswick, Vic, 8 Jan 1885. Died 5 Jul 1945.

of a succession of compromise plans which pleased no major interest and antagonised most.

The Treasurer, now also Prime Minister, was able to record a gross war expenditure of £181,000,000 or, since £11,000,000 of this was work and supplies for other governments paid for during the year, a net figure of £170,000,000, compared with the 1940-41 budget estimate of £186,000,000. Revenue contributed £3,000,000 more than the estimate, mainly because of savings in non-war expenditure and unexpectedly high income tax. (Wartime company and super taxes, sales tax and estate duty yielded less than the estimates, the most serious disappointment being the special company taxes.)

For 1941-42 estimates of non-war expenditure had to be raised substantially to provide for child endowment (£13,000,000), more liberal old age pensions (£50,000), assistance to primary producers to meet the impact of lost markets (£500,000), losses on apple and pear acquisition (£1,400,000) and subsidies to reduce the price of superphosphate (£750,000). Payments to State governments recommended by the Grants Commission were also higher.

The gross total of war expenditure was scaled down in view of the American Lend-Lease Act to £217,000,000 of which the whole of the overseas expenditure (£57,000,000) would be met without borrowing from Britain. On this the Treasurer commented: "This £57,000,000 of overseas expenditure requires finance, but for the most part it makes no call on Australian resources. The physical resources required are supplied by the United Kingdom. On the other hand we are doing £55,000,000 worth of work for other governments which does not require budget finance, but does make a call on our physical resources. The two amounts roughly balance."⁵ The main items of local expenditure were increases in servicemen's deferred pay by 1s a day and of 3s 6d a week to wives of servicemen without children; housing for munition workers; shipbuilding; development of substitute fuels; and flax production.⁶ The Treasurer concluded that £154,000,000 had to be found by increased taxes, loans or other means.

In explaining his approach to this problem, he put a new stress on direct controls and the subordination of money to "real" resources:

This national income would normally have been spent by the community—by governments, companies and individuals—in satisfaction of civil needs. Last year, however, a considerable part, approximately 15 per cent, of the national production was used by the government for war purposes. It was necessary, therefore, that the community should refrain from spending the same proportion of their total incomes so that it could be transferred to the government. Our taxation plans provided for only a part of this transfer. The balance had to be effected by voluntary savings, namely, by the community willingly foregoing its use of resources. These savings reached the government through subscriptions to loans, war savings certificates, or indirectly through the banks.

⁵ *Commonwealth Debates*, Vol 168, p. 569, 25 Sep.

⁶ *Commonwealth Debates*, Vol 168, pp. 568-9.

In view of the large amount of resources which had to be quickly transferred to the war effort, it was necessary for the government to take certain steps in order to ensure that resources of a suitable nature were released from civilian employment.

Public expenditure on non-war capital projects has been reduced and, since October 1939, private expenditure of a capital nature has been subject to direct Treasury control on the advice of the Capital Issues Board. During last year a more stringent control has been exercised over the raising of new money for purposes not associated with the war and not urgently necessary for essential civil purposes. This control has been extended to building operations but all housing with the exception of purely luxury dwellings has continued to be free of restrictions.

During 1940-41 restrictions on imported non-essentials have been applied to a wider range of commodities, and the use of exchange for purposes other than imports has been further limited.

This year, the excess of incomes over available goods and services is very much greater than last year, and if this is not to lead to rising prices, the public must adjust in one way or another their spending to the supply of goods available for purchase. The government rejects the inflationary method of reducing consumption by letting prices rise faster than incomes. This means that the government must contemplate—(a) further increases of taxation, (b) stronger appeals for private and public economy in all expenditure not necessary for the war, and (c) stiffening and extending the controls already instituted to reduce spending. This will provide the real saving to back greatly increased government borrowing both from the public and from the banking system.⁷

But further stiff increases in taxation were deprecated. This prepared the way for the next step, heavy reliance on loans:

The Government will borrow £122,000,000 to complete the provision for war expenditure. It will borrow this amount by public loans, by war savings certificates, and by loans from the banking system. It has a heavy responsibility to ensure that these loans shall be sufficiently balanced by real savings. A considerable proportion of these loans must come from the banking system, because the banks will be the repositories of much of the savings that will be made, and of much of the money which can be diverted from other forms of investment. How far beyond that point we can borrow from the banks can be decided only by experience.⁸

In explaining how that part of this programme which related to loans from the banks would be implemented, the Treasurer reported the agreement with the banks to accept the guidance of the Commonwealth Bank in the direction of new advances, and to deposit with that bank all their "surplus investable funds".

Postal and telephone charges were increased (for example most articles posted carried a $\frac{1}{2}$ d "war postage tax") and modest increases in income tax and a rise in the ordinary company tax from 2s to 2s 6d were intended to produce in all £7,000,000.

The most notable feature of the budget was the proposed solution of the problem of divergent State income taxes:

There are, however, incomes or parts of incomes which it is impracticable or unwise to tax to the full appropriate amount. In such cases we can reduce present spending power to the appropriate level by taking the required amount in the form of loan, repayable when the exigencies of war are past. . . .

⁷ *Commonwealth Debates*, Vol 168, p. 570-1, 25 Sep.

⁸ *Commonwealth Debates*, Vol 168, pp. 573-4, 25 Sep 1941.

The following arrangement is therefore proposed:

- (a) A national contribution is assessed on every income in Australia, however derived. The exemption for a single man or woman is £100 and the scale of contribution progresses to 18s in the £ on high incomes. The national contribution is in general large enough to cover both Federal income tax and State income tax in the highest taxing State.
- (b) From the national contribution assessed are deducted the Federal income tax payable in the current year and the State income tax paid in the previous year and set down in the return of income. The remainder, if any, is collected as a loan, bearing simple interest at 2 per cent, which in general is the rate paid on Savings Bank deposits, and repayable after the war. It will be called the wartime contribution.

A new Federal income tax scale is designed to harmonise with the national contribution scale. As the national contribution takes full account of State taxation, it is no longer necessary to allow State taxes as a deduction from income in assessing the Federal tax.⁹

The scheme was extended to companies of which the Treasurer said "There is not much room for increased taxation". He proposed to take each year 20 per cent of their addition to reserves for depreciation, repayable after the war or earlier if it could be shown they were needed for war production.

In the defeat of the Government much more was involved than the budget. The main specific attacks on the budget were the choice of giving servicemen their increase as deferred pay only, the national contribution, the arrangement with the banks, and invalid and old age pensions. The Government should have had no illusions about Labour's attitude to compulsory loans. It had been freely expressed ever since Keynes had first published in England his proposal for deferred pay. In the Senate, for instance, the Leader of the Opposition there had declared: "I tell the Government and honorable senators opposite that in no circumstances can it swing on to the workers of this country, if we can prevent it, any foreign schemes of compulsory savings . . . we will not have a word of it."¹

The bank arrangement was equally a direct challenge to Labour. Curtin put the well-known attitude thus:

. . . one fundamental objection which we take to this Budget is that it places the national credit at the disposal of the Commonwealth Government in such a way as to permit a third party to make a profit out of it. We submit that nothing requires doing in respect of the management of national credit for the purpose of prosecuting the war which the Commonwealth Bank itself is not entirely competent to do. The honorable gentleman's "firm agreement" is not worth the paper on which it is written, because the Commonwealth Bank Board itself is too responsive to the interests that I am now criticising to handle this matter as it should be handled. The honorable gentleman and, I think, his colleagues, know of recent discussions which certain of my colleagues have had with representatives of the Commonwealth Bank Board. I say nothing about those representatives except this—and I say it after a great deal of reflection—I do not consider that Sir Claude Reading's conception of how this country can be best served is in the best interests of Australia as a nation.²

⁹ *Commonwealth Debates*, Vol 168, pp. 573-4, 25 Sep 1941.

¹ *Commonwealth Debates*, Vol 167, pp. 434-5, 26 Jun 1941.

² *Commonwealth Debates*, Vol 168, p. 616, 1 Oct 1941.

LABOUR'S FIRST BUDGET

The new Labour Government could do little but accept the expenditure estimates of the Fadden budget. There was no time for elaborate review and modification. The new Government, while in control with the support of Independents in the Lower House, was in a minority in the Upper House, and in any case there was no reason to believe that, so far as war expenditure was concerned, review would produce any drastic changes. Accordingly the new Treasurer, Mr Chifley, accepted the earlier estimates with changes which increased the total by £5,700,000. These changes were of a type in line with Labour policy. In place of the previous government's proposal to give the forces increased pay mainly in the form of deferred pay, the new proposal was for increases in pay and allowances almost all of which were in the form of present payments. There were modest increases in invalid and old age pensions and a few minor adjustments.

It was on the revenue and loan raising side that the first expressions of a new approach to policy were made. In line with the previous government's review it was estimated that finance for an additional £160,000,000 was required for 1941-42, of which it was expected that, after providing £20,000,000 for Loan Council allocations, it should be possible to obtain £66,000,000 for war purposes from the loan market. This meant that £94,000,000 had to be obtained by increased taxation or by borrowing above the level of the previous year. At this point the Treasurer transferred his emphasis from money to real resources in tone recalling the Spender financial statements:

The diversion of labour and resources to war production will necessarily reduce the volume of non-essential goods available for civil consumption. On the other hand, the increased volume of employment will place further spending power in the hands of the people. If this were all spent it would result in increased competition by private interests for the resources necessary for war. This must be avoided or our war effort will falter. Private spending must therefore be limited to the smaller flow of civil goods that will be available and prices must be rigidly controlled. A rough measure of the limitation that is necessary is the additional £94,000,000 for war expenditure to which I have referred, and the task before us is to secure this limitation in the most equitable manner. We are, therefore, forced by the demands of war to call upon the people for further sacrifices which can be made, whilst preserving health and efficiency for all.

The Treasurer made the kind of reference to credit expansion which his party no doubt expected of him, although from one point of view his statement was no more than that. From another, it pointed to the fact that future concern could not be directed towards preventing inflation but must rather aim at supplementing financial policy by direct controls for the purpose of keeping in bounds the inflation which an intense war effort made inevitable.

Credit expansion however can be successfully used to finance employment of reserves of manpower to expand production of goods and materials. That is to say that any increase of the money volume must be balanced by a corresponding increase

"PINNING THE DONKEY'S TAIL!"



Armstrong in Argus (Melbourne), 4 Oct 1941.

of production. The extent to which increased production is possible will be determined by the amount of reserve manpower that is available.³

The Government rejected compulsory loans for low income groups and announced its intention of undertaking an intensive campaign for voluntary savings with the objective of raising the net receipts from war savings certificates from the £12,000,000 in 1940-41 to double that amount. However, the Treasurer had no illusions about the extent to which it was practicable to rely upon appeals to patriotism for voluntary restriction of spending, and indicated that in addition to financial restrictions by way of increased taxation the Government contemplated direct restrictions on the production and consumption of goods of low priority:

However successful may be our appeals for voluntary saving, it will still be necessary for the Government to control private expenditure which conflicts with war activities. If people are left to choose their own economies they may continue to demand the very classes of goods the production of which competes directly with the war effort. An obvious example of this is in expenditure on industrial expansion. In these days we require an enormous expansion of factories, plant, and equipment for war purposes. We cannot then allow private interests to use the resources necessary for this expansion to increase their own industrial capacity for civil production. Expenditure on investment must therefore be more strictly controlled. This form of control is first on our list, not only because it is likely to save the type of resources required for war, but also because it takes nothing from the immediate consumption standards of the people.

Production of luxury goods can also be curtailed considerably without reducing the living standard of basic wage families.⁴

When he turned to the raising of additional revenue estimated at £22,000,000 from taxation, he made it plain that the Government would be less respectful of claims of business and of established interest generally, including the States, than its predecessor had been. Rates of tax on personal incomes were increased substantially, to yield an estimated additional amount of £4,500,000. The new rates meant that the total of Commonwealth and State taxes in the State where taxes were highest would reach a maximum of 18s in the £. The Treasurer's only comment was: "We have to pay some regard to the income taxes imposed by the States." There were also a number of changes in the methods of assessing personal income tax, providing, for example, for the aggregation of incomes of husband and wife to determine the rate of tax, and for the cancellation of various exemptions—especially the allowance for dependent children in respect of which child endowment was now being paid—and others which facilitated avoidance or evasion of tax. These changes were expected to increase revenue in the current year by £2,900,000.

The rate of income tax on companies was increased by 50 per cent to 3s in the £, estimated to provide additional revenue of £4,500,000. The wartime company tax rates were increased both by lowering the point at which tax commenced, and increasing the rate of progression so that taxable profit exceeding 16 per cent of capital would be subject to a

³ *Commonwealth Debates*, Vol 169, p. 21, 29 Oct 1941.

⁴ *Commonwealth Debates*, Vol 169, p. 22.

maximum rate of 78 per cent taxation. This was expected to yield £4,000,000.

Estate duties and land tax were increased to yield modest additions, while a new tax—gift duty—was introduced as a means of checking dispersion of property designed to avoid income tax and estate duty, dispersions which were already increasing, and could be expected to become more common with the now increased taxation.

The lower levels of income were to be reached mainly by increases in sales tax which were expected to yield £1,900,000 for the remainder of 1941-42. Postal charges were to be subjected to a general war postage tax of $\frac{1}{4}$ d per article, while telephone charges were also raised, the total increase for 1941-42 being estimated at £1,500,000. Finally, customs and excise increases were expected to provide another £2,350,000.

The total amount which it was proposed to raise by these levies was less than the £32,000,000 which Fadden had expected from his increased taxes and his national defence contribution. On the other hand only £7,000,000 of Fadden's figure was accounted for by taxation, whereas all of Chifley's was in that form. Moreover, the selection of taxes by the new Government, in line with Labour tradition, was different, and aimed at wealth and large incomes.

This foretaste of Labour financial policy was accompanied by other related measures in the same tradition. Chifley forecast a policy of rural reconstruction related in particular to changes in the existing machinery for debt adjustment and arrangements for the transfer of farmers from sub-marginal areas. One part of the policy was initiated at once: the government commenced plans for the establishment of a mortgage bank.

More important for immediate war problems was the procedure adopted for bringing trading bank advance policy under control. The Fadden agreement with the banks was scrapped and replaced by regulations which, while directed towards achieving the same results, pursued them by legal compulsion and went beyond the agreement in the obligations they imposed. As issued a month later, the regulations provided that the operation of a bank should require a licence (granted automatically to all the existing banks).⁵ The regulations declared that in making advances a trading bank must comply with the policy laid down by the Commonwealth Bank from time to time. A bank had to obtain the consent of the Commonwealth Bank for any purchase of or subscription to any form of government loan or securities listed on any Australian stock exchange. A bank was required to lodge in a special account with the Commonwealth Bank a proportion—to be specified from time to time by that bank—of its surplus investable funds on which it might receive interest at a rate (fixed by the Treasurer) designed to restrict the trading profits of a bank to their average level in the three years before the war. These were comprehensive powers, destined to be given permanent force in the legislation of 1945, and represented a revolutionary change in the position of the Commonwealth Bank as a central bank. The traditional procedures and

⁵ Statutory Rules 1941, No. 272, 26 Nov.

techniques of central banking had never had much relevance to Australian conditions, but the powers in these regulations gave the Commonwealth Bank explicit legal authority well beyond that possessed by overseas central banks. A subordinate part of the Government's banking policy concerned the increasing practice of promoting war production by guaranteeing overdrafts granted to private manufacturers. It was laid down that for the future all such guarantees would be confined to advances made by the Commonwealth Bank; the private trading banks would be excluded from this business.

EXPENDITURE ON DEFENCE AND WAR

	Total	From Revenue		From Loan	
	£ millions	£ millions	%	£ millions	%
1939-40	55.72	26.91	48.3	28.81	51.7
1940-41	170.83	69.25	40.5	101.58	59.5
1941-42	320.71	109.83	34.2	210.88	65.8
1942-43	562.66	159.81	28.4	402.85	71.6
1943-44	545.13	167.98	30.8	377.15	69.2

COMMONWEALTH TAXATION: Percentages of Total Collections.

	1937-38	1938-39	1939-40	1940-41	1941-42	1942-43
	%	%	%	%	%	%
Customs	47.8	42.1	38.7	23.5	14.1	8.1
Excise	22.3	22.3	21.1	19.4	17.6	17.1
Sales Tax	11.6	12.6	13.5	15.8	14.9	11.3
Flour Tax	—	2.4	2.8	1.2	0.9	0.7
Land Tax	2.0	2.0	1.8	2.5	2.1	1.5
Income Tax (a)	13.6	16.0	18.3	34.5	43.2	54.9
Payroll Tax	—	—	—	—	5.0	4.1
Gold Tax	—	—	1.3	1.2	0.6	0.2
Estate Duty	2.7	2.6	2.5	1.9	1.6	0.8
Entertainments Tax	—	—	—	—	—	1.2
Gift Duty	—	—	—	—	—	0.1
	100.0	100.0	100.0	100.0	100.0	100.0

(a) Includes Wartime (Company) and Super Taxes

Source: *Commonwealth Year Book*

On a number of points in the budget the Government had to accept the consequence of not having control of the Upper House and to agree to modifications pressed by the Opposition. The aggregation of incomes of husband and wife was made operative only after the date of presentation of the budget so that it was not expected to yield any income at all in the current year. A similar principle was adopted in regard to the can-

cellation of the exemption from taxation of dividends received in Australia from oversea companies. While some of the previous concessions to mining companies were restored, the increase in wartime company tax was scaled down, reducing anticipated yield by nearly £1,000,000. The total effect of these changes was to reduce estimated revenue for 1941-42 by £1,800,000. These were, for a government in the parliamentary position of the Curtin Government, very modest curtailment of its financial programme.

These adjustments were reported by Chifley to Parliament a mere fortnight before the Japanese attack on Pearl Harbour greatly increased the scale, as it accentuated the urgency, of the transfer of resources to direct war activities. As it stood, the first Chifley budget differed from the one it replaced primarily in the methods it proposed for raising funds and for exercising financial control. Its levies would have made no more difference to the growing threat of inflation, but the approach and the methods were different in essential respects and the larger problems of 1942 and 1943 showed that approach and these methods being consistently followed.

CHAPTER 12

TRANSPORT AND COAL

IN Australia by 1939 the distribution of population and industry had caused the evolution of a transport pattern in which the major strands were provided by railways and by small and medium-sized coastal ships. The use of oversea vessels for carriage between local ports was severely curtailed as part of a policy of promoting domestic shipping.

Like shipping, land transport was prominent in pre-war defence planning because of the obvious strategic considerations involved. To confront the expected attack troops would need to be moved, and facilities for their transport must be examined. Expectations that coastal shipping would be requisitioned and forecasts that Japanese belligerency would create a major shipping crisis, dictated study of alternative forms of land transport. Any war must mean reduced shipping on the coast; the expected war would have meant a large transfer of cargo to other modes of transport, cargoes which were predominantly bulky and heavy; the transfer to be contemplated was, in principle, the simple one of shift from coastal ships to the railways.

At the outbreak of war air transport in Australia was not worth considering as a serious contributor to wartime transport of goods. Although in the immediate pre-war years air transport, both of passengers and freight, had been expanding at a rapid rate, the absolute figures were not large. The total of registered aircraft of all types in June 1939 was 296, of which many were small planes for pleasure use. The total amount of freight carried annually was only 391 tons.¹ In 1939 the air transport companies had to look forward to impressment of aircraft by the air force, and the certainty that in competition with other wartime demands, import of transport aircraft for civil use would be very small.

Superficially, road transport appeared to offer more substantial aid, but closer examination showed that this was extremely limited. Statistical information is not very illuminating in this regard, except to indicate in a very broad way the limited road transport services then available. An omnibus category of "commercial vehicles" which included lorries, vans, buses, utility trucks and, in Victoria, any motor vehicle used by a primary producer, was recorded and showed for the immediate pre-war period:

1937-38	.	.	241,751
1938-39	.	.	258,025
1939-40	.	.	260,994

Of these a high proportion would be vehicles useful only for local services and light loads. Of the remainder many were some years old, not likely to stand for long the heavy long-distance carrying which would be required, nor to be suitable for conversion to the use of producer gas when petrol

¹ These figures may be compared with those of June 1950 when there were 779 aircraft and the freight carried amounted to 44,144 tons.

supply became difficult. The modest number, at whose size one can only guess, of relatively modern large vehicles constituted precisely the group most likely to suffer from requisitioning by the Services, while once war began the opportunities for import for civil use might be extremely limited. Aside from the obvious restriction on road transport implied by the threatened necessity to make do with less petrol, there was the less obvious restriction of the roads themselves. In many areas where railways might need relief, roads were fit for only the lightest motor traffic, while even major highways had not been constructed for long-distance heavy haulage which, in fact, was commonly restricted by State legislation designed to prevent serious competition with State-owned railways. Accordingly, considerations of the early problems of wartime internal transport could merely note that the available resources were suitable for the kind of localised carrying which they were already doing, but could not avoid the hard fact that what could not be carried in ships on the coast would fall to the railways. The railway systems were regarded as the basic carriers, and investigations were almost exclusively into the adaptation of the railways to wartime needs.

RAILWAYS

There were inherent features of the railway systems which presented obvious difficulties in the way of satisfactory defence transport. Not only did gauges range from 3 feet 6 inches to 5 feet 3 inches, but locomotives and rolling stock varied in type and power from one State to another, and for both reasons the load to be carried could not be constant either in quantity or weight except over specified lines within a single State. The break-of-gauge had been the subject of long-continued controversy, and was everywhere recognised as undesirable, but little had been done towards reducing the disability; nor was it likely that much would be done, since the development of State-owned railways, with features distinct from their neighbours, involved complex attitudes and indeed the whole business of Commonwealth-State relationships.

The military authorities, on whom the deficiency was likely to weigh most heavily in the event of war, maintained a continued and increasing interest in railway transport. The War Railway Council met under the presidency of the Quartermaster-General of the forces.² In 1938 at a time when preparations had been speeded up in all sections of defence, the army's Director of Railway Transportation conducted a survey "in order

² Formed, following a report by Lord Kitchener, of the Chief Railway Commissioners of the several States, the council met for the first time in February 1911, and up to 1936 had met eight times. Its functions were:

"To furnish advice on such railways matters as were referred to it by the Minister and in particular:

- (i) to determine the method of supplying information to and obtaining it from the various Railway Departments;
- (ii) to recommend regulations and instructions for carrying out movements;
- (iii) to advise upon the method of organising railway transportation officers in time of war as intermediaries between railway authorities and the troops;
- (iv) to consider the question of extra sidings, loading platforms, and the like; and proposals towards unification of gauges;
- (v) to advise upon the organisation and system of training railway troops."

that the interstate railway lines could be worked at maximum capacity for strategical moves of an operational nature".³

Beginning with the assumption that their plans must accept a multiple-gauge system, the Director and his associates produced proposals which included additional crossing loops (that is, to increase the opportunity for trains on single-track routes to pass one another), additional transfer facilities at border stations Wallangarra, Albury and Tocumwal, entraining and detraining facilities (for service personnel) at Dysart, Victoria, modification of rolling stock to fit it for military use, and additional telephonic communication to speed up the handling of military traffic. But "as these projects were essential from a defence viewpoint but had little if any peacetime economic value, the States were unable to accept financial responsibility for the provision and for the time being the proposals remained in abeyance".⁴

These basic technical needs, adapted and augmented (further supplemented later by the addition of major capital works) are of special interest for they proved substantially the only technical innovations which could be of use in a multiple-gauge system.

The War Book proposals also emanated from the Director and provided that:

- (i) in the event of mobilisation the Commonwealth Government will take control of the Australian railways with a view to securing their operation as a national system under a coordinating authority.
- (ii) Control will be applied primarily by vesting the Railway Commissioner in each State with the necessary powers to control all the railways within the State for and on behalf of the Commonwealth Government provided that
 - (a) Railways which in peacetime are the property of the Commonwealth will be controlled by the Commissioner of the Commonwealth Railways;
 - (b) The railway between Cockburn and Broken Hill in New South Wales will be controlled by the South Australian Railways Commissioner.
- (iii) Coordination will be effected through the creating of a War Railways Executive Committee on which the Railway Commissioner of each State (as the controlling officer) and of the Commonwealth Railways together with the Director of Railway Transportation, Army Headquarters, will be represented.
- (iv) The function of the War Railways Executive Committee will be exclusively "executive" and the Railways Commissioners to whom control is delegated will continue to be responsible for the administration and operation of their respective systems as in times of peace, subject however to such instructions and directions as may be issued from time to time by the Minister for Defence Coordination.

³ From 1 Jan 1938 this office was held by W. H. Newman, Secretary for Railways and Administrative Assistant to the N.S.W. Commissioner for Railways. In recommending his appointment the Quartermaster-General stated that since railways in 2MD (New South Wales) "will be of vital concern to the maintenance of the field army on mobilisation . . . it is most desirable that a representative from the railways of that [military] district should receive the appointment". This view of the position of New South Wales persisted into the war years. Newman had had two and a half years military experience of railway operations in France on the Dunkirk-Ypres section during the 1914-18 war.

It is worth mention that the earlier title "Director of Railways" was replaced by "Director of Railway Transportation" because (so the reason ran) the former title might be misunderstood by State commissioners for railways.

⁴ Chronological History of the Organisation of the Australian Railways for National Defence—a document now with the Director of Movements, Victoria Barracks, Melbourne.

- (v) To determine the relative importance of demands for transportation which are likely to arise in a state of national emergency, and to lay down the order of priority in which such demands will require execution, a Priorities Committee under the chairmanship of the Quartermaster-General of the forces to be constituted.

In fact these proposals formed the base for later administrative developments, but, as will be seen, though reasonable enough in principle they failed to take account of the very strong State reactions to any apparent Commonwealth dictation of railway policy; of the especial need to make provision for financial adjustments between States and Commonwealth (such adjustments were likely to be complex); and of the legal difficulties to be overcome.

The moderate proposals for crossing loops, additional facilities and modification of rolling stock made earlier by the Director of Railway Transportation were revived in December 1939 and, with Commonwealth finance to the extent of £239,450, the work was begun in 1940, being completed by June of that year. From a military point of view this gave the following track capacities for interstate troop movements:

- (i) Adelaide-Melbourne-Sydney or Newcastle—via Albury—16 trains per day each way
- (ii) Adelaide-Melbourne-Sydney or Newcastle—via Tocumwal, Griffith and Cootamundra—16 trains per day each way
- (iii) Adelaide-Melbourne-Newcastle—via Albury or Tocumwal and via Werris Creek—16 trains per day each way
- (iv) Brisbane-Wallangarra—12 trains per day each way
Wallangarra-Newcastle—8 trains per day each way.
(The load capacity of 8 New South Wales trains was the equivalent of 12 Queensland trains.)

From the accompanying map which also indicates the distribution of gauges on "main" lines, it will be seen that this timetable involved the use of available "alternative" routes between States.

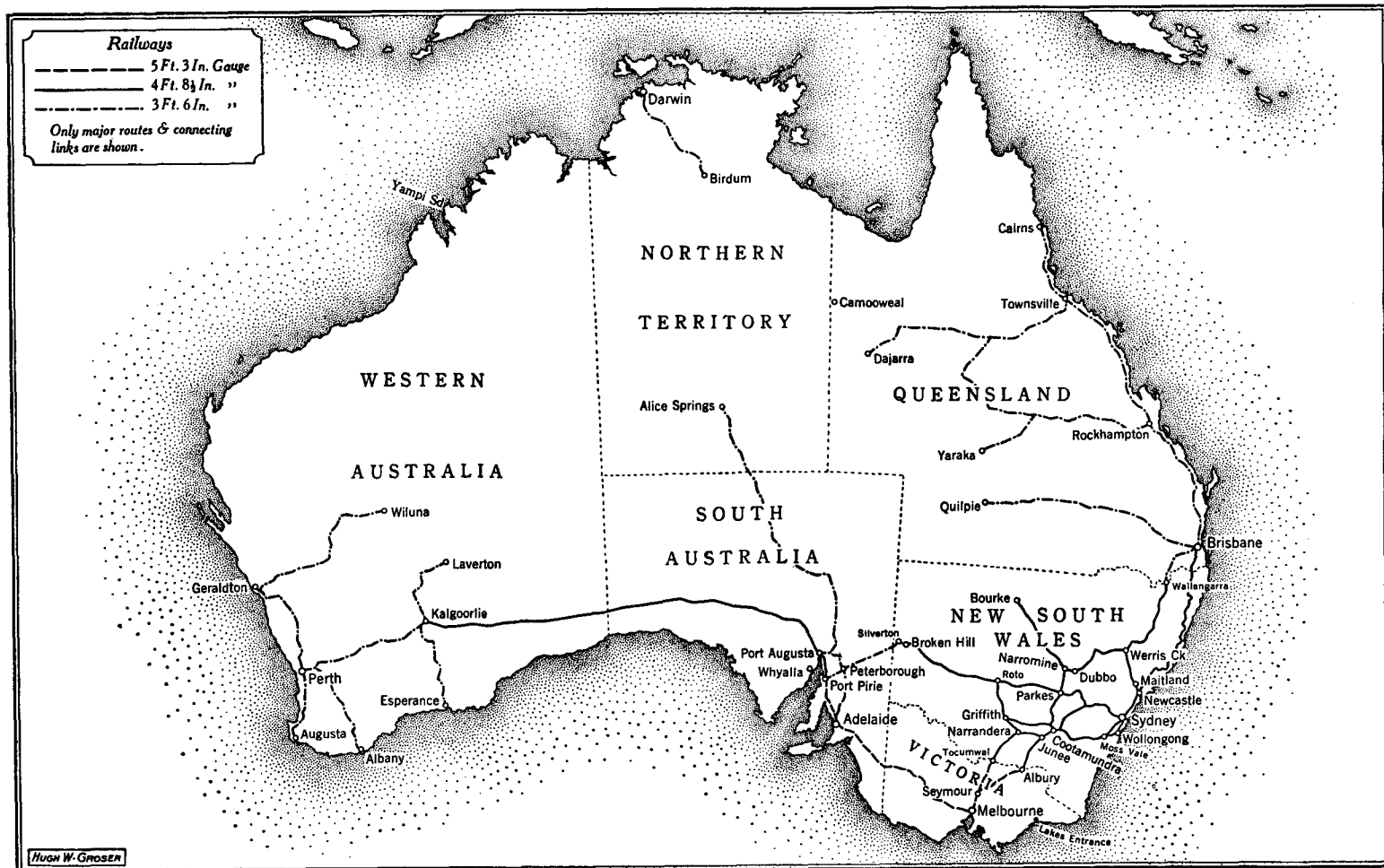
It will be remembered that the railways were to anticipate a major diversion of traffic from the sea, but the first months of actual war saw no such diversion, and no call for troop movements of any size. In consequence, except for the minor railway works already mentioned, the railways, like the coastal ships, continued to carry goods and passengers in the peacetime pattern. Interference with peacetime road transport occurred only to the extent that petrol prices rose and possibilities of rationing were debated.

When, in May 1940, a real emergency appeared to exist, transport was once again among the first considerations of the strategists. At its meeting of 5th July 1940 the War Railway Council considered—for the Defence Committee—matters identical with those discussed before the war: the control of railways in time of war, additional works and facilities, and the capacity of the railways to handle traffic diverted from the sea. But the Government wanted the very widest view of transport to be taken,

Railways

- 5 Ft. 3 In. Gauge
- 4 Ft. 8½ In. "
- 3 Ft. 6 In. "

Only major routes & connecting links are shown.



and to this end had set up within the Department of Defence Coordination two committees.⁵ The intention was that the Principal Committee should

... report to the Commonwealth and State Governments on the degree of necessity for the coordination in war of all available transport resources of all natures. In advance to report on

- (i) the most effective and practicable method of meeting war requirements of internal transportation (including coastwise shipping). To define the responsibility as between the Commonwealth Government and the State Governments, public utility undertakings and private firms for meeting the war demands.
- (ii) The effect on Australian transport capacity consequent on the possible deflection of Australian shipping to other waters during the course of the war and the best method of organisation to meet this eventuality. To indicate a system of direction and control in war, and the organisation required for that direction and control.
- (iii) The arrangements that should now be adopted to ensure a smooth transition from the present system of the organisation of transport, to that which might be required to meet a more serious situation arising out of the present war.
- (iv) Any other related matters that may arise in the examination of the subject.

The Users' Committee was to advise the Principal Committee on "the nature and scale of the prospective demands for transportation in war". The Principal Committee's title "for organisation of transport for an emergency" was significant, and it was with this qualification that they began work. But discussions with a view to what might happen became very quickly merged with what was happening, so that although not charged with any executive power, the committee soon became the centre of discussion from which executive action followed.

Reference was had to earlier reports on shipping questions,⁶ and the consideration of control of movements along the coast, intrastate shipping, and oversea shipping as a means of supplementing Australian services, led to the immediate recommendation that the Shipping Control Board be constituted along the lines provided in the War Book.

The earlier reports on requisitioning had taken the view that reliance could not be placed on road transport, and the War Railway Council reiterated this view at its meeting of 5th July 1940, emphasising the role of the railways as the main interstate carriers in any emergency, with road transport working intrastate (so far as petrol and oil supplies would permit) and acting as feeders to the railways. The Principal Committee also agreed with this view, but emphasised the need to consult military authorities about requisitioning vehicles for any emergency.

⁵ A Principal Committee with A. W. Fadden as chairman, and representatives of the Naval Board, the Military Board, Commonwealth transport activities, sea transport (the original intention was a "member of Shipping Control Board"), railway transport, road transport and civil aviation. A Users' Committee under George E. Green, an "independent chairman", and representatives of the navy, army, air force, Department of Supply and Development, heavy secondary industries, coal, primary industries, road transport, rail transport.

The Principal Committee met on 22-23 Jul, 10-11 Oct, 2 Dec 1940, 5 Feb, 25 Mar, 22 May, 11 Jul, 29 Sep 1941. The Users' Committee met on 23-24 Aug 1940.

The plan also included sub-committees in each State.

⁶ Report of sub-committee on requisitioning of mercantile marine vessels for defence purposes in time of war (August 1938 and subsequent reports thereon); reports by the Financial and Economic Committee: coastal shipping of both general and bulk cargoes (interstate and intrastate).

On the one hand shipping was especially vulnerable and in an emergency more likely to demand assistance in diverting cargoes than to give it; on the other road transport was in a position to provide only limited assistance in an emergency; the answer lay clearly with the railways, and it was on them that the committee's deliberations centred. But a more urgent factor entered and complicated their discussions. Coal supplies, carried by sea from the northern fields of New South Wales to Sydney, to Victoria and to South Australia, were in consequence specially vulnerable to any enemy interference with shipping. (This had been apparent to the pre-war planners, but beyond indicating a diversion to railway transport little had been done.) The accumulation of reserves of coal was now demanded if the railways were "to devote their maximum effort to defence movement under war conditions"⁷ and the War Railway Council urged action to increase coal production in New South Wales and expedite shipping of coal to Victoria, South Australia and the Commonwealth Railways. The Principal Committee, though "not charged with the duty of production of coal" was seized with the importance of the matter, and emphasised the fact that every effort should be made to build up reserves whilst shipping facilities were available.

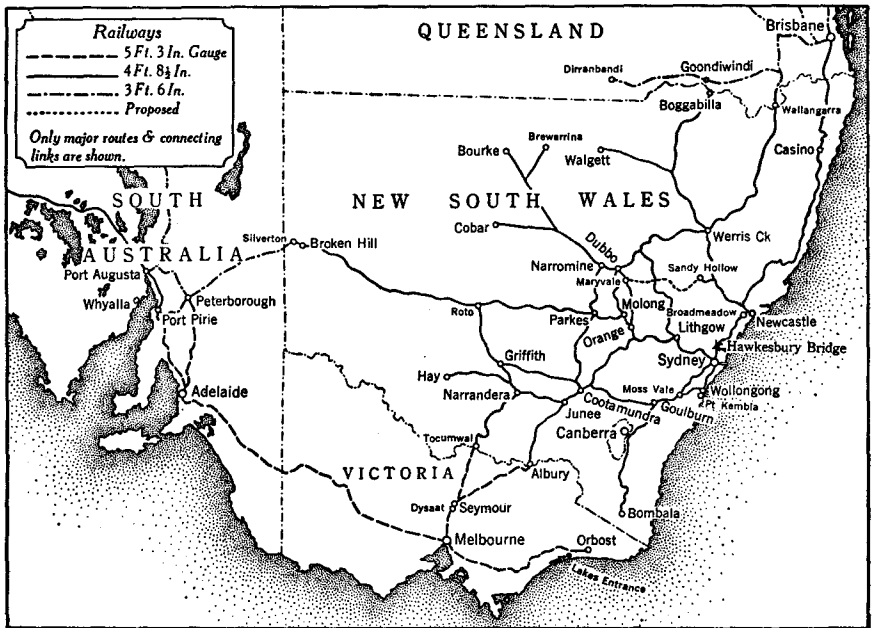
But coal for consumption by the railways was only a part of the problem; coal for public utilities and for industry must also be assured.

The arrangements of peacetime provided that iron ore from Whyalla in South Australia should come by sea to the furnaces of Broken Hill Proprietary Limited in Newcastle, New South Wales; because freight was cheaper (and because, too, there was a close relation between ship-owning and mine-owning) the black coal of the northern New South Wales fields went to Sydney, to Victoria and to South Australia by sea. Any need to divert either of these trades to the railways would involve not only higher freight rates, but transshipment at border stations. Newcastle's coal shipments in 1936-37 had amounted to 2,188,000 tons and by August 1940 were estimated at 2,400,000 tons a year; iron ore shipments from Whyalla, South Australia, to Newcastle and Port Kembla had been 2,325,400 in 1938-39, and 2,499,000 in 1939-40 (it was estimated that they would in future rise to 50,000 tons a week). If all interstate shipping were suspended the railways must handle these quantities. The possible routes are illustrated in the accompanying map. There existed, however, a vital link in the form of a 4 foot 8½ inch gauge track from Newcastle to Broken Hill from which point there were 256 miles of 3 foot 6 inch gauge track to Port Pirie in South Australia. (Port Pirie was at the eastern end of the 4 foot 8½ inch "transcontinental" line from Kalgoorlie in Western Australia.) The needs of iron ore and coal apart, there were obvious strategic advantages in such a link.

The Port Pirie railway had appeared from time to time on the agenda for Premiers' conferences as a work of defence value; in February 1940 the Minister for Defence Coordination had directed that the War Railway

⁷ War Railway Council meeting 5 Jul 1940.

Council give their advice, which was that widening the gauge to 4 feet 8½ inches was primarily a matter of policy for the Commonwealth and the States concerned, but the provision of additional transfer facilities on the existing railway, and other works necessary to obtain maximum capacity of the existing track, was now a matter of prior importance and should be undertaken immediately (in effect the same general policy which had been advocated before the war to improve the efficiency of railway systems).⁸



The July meeting of the War Railway Council had discussed additional railway works under two headings: those needed for troop movements (additional to those already approved back in December), and those needed if the railways were required to handle general freight and bulk cargoes normally conveyed by sea. In addition New South Wales, Victoria and Queensland submitted lists of works which, if completed, would strengthen the railway systems from a defence point of view. The Principal Committee by direction of the Defence Committee also looked at these

⁸ War Cabinet Agendum 241/1940. There were three alternatives: (i) a mixed gauge, that is a third rail running beside the existing track; (ii) construction of a new 4 foot 8½ inch track in lieu of that already laid; (iii) a new 4 foot 8½ inch track laid beside the existing track.

The representative of the Commonwealth Railways dissented from the view of the majority because, he asserted, although the other commissioners had regarded time as the primary factor, the estimate of eighteen months for construction of the new track was on a basis of working a single shift, while the estimate of six months for the extensions and additions to existing facilities was on the basis of three shifts. The Prime Minister himself considered the project a long-term one.

proposals, and ultimately a recommendation went up to the War Cabinet that the following be approved:⁹

Works for troop movements	£251,717
Works for conveyance of petrol and oil in bulk for military purposes	£12,300
Works required for handling freight diverted from interstate shipping	£947,000

The need to provide for coal and iron ore transport should coastal shipping be interrupted was paramount. By this time there had been sufficient requisitioning by the navy to interrupt the shipping of general cargo, and although the navy contended that no colliers or iron ore ships had been taken, a serious war situation in the Pacific might make such action necessary. In any case the effects of enemy raiders and mine-laying were ever present threats to the ships carrying coal and iron ore. In August 1940 two general cargo ships had been torpedoed, and in November and December raiders and the mines they laid claimed eleven ships, three of them in the coastal routes which the colliers and the ore ships used. The War Cabinet accordingly approved the amounts and in addition directed that the Coordinator-General of Works confer with the States and submit to the Treasurer proposals for allotting financial responsibility for the following major works:

Construction of the new Hawkesbury River bridge in New South Wales (already in hand), estimated to need £1,349,000.

Duplication of the track on the Cootamundra-Junee section of the main southern line in New South Wales between Sydney and the border, estimated to need £1,069,000.

Duplication on the Goulburn Junction-Seymour section of the main north-eastern line in Victoria between Melbourne and the border, estimated to need £100,000.

Conversion to a mixed gauge by third rail arrangement of the rail line Port Pirie to Broken Hill, estimated to need £2,400,000.¹

The defence value of each item was obvious: the first was to replace a bridge, fifty years old, on the main northern route from Sydney, the foundations of which now permitted only one track to be used and loads to be hauled by one engine only at a much reduced speed; the second would permit use of the Junee-Narrandera-Tocumwal route between Sydney and Melbourne, thus providing another alternate route; the third involved the construction of a bridge to eliminate a bottleneck on the Melbourne-Tocumwal line; the fourth has already been discussed. These were not the only schemes put forward by enthusiastic State Premiers alive to the chances of construction at Commonwealth expense. The original list from New South Wales had included eleven items; that from Victoria two; that from Queensland one (the Dajarra-Camooweal railway). The apparent predominance of New South Wales demands is in part explained, of course, by the major part the railways of that State were expected to play.

⁹ In view of later demands for rolling stock it should be noted that these amounts took account only of crossing loops, mechanical transporters, general facilities and the like; no additional rolling stock was included although the burden which would be placed on existing stock was emphasised, even to the point of insisting that a system of priorities would have to be introduced to cope with the situation.

¹ War Cabinet Minute 618, 4 Nov 1940.

One project was added to those approved for discussion between the Coordinator of Works and the States—the Sandy Hollow-Maryvale railway in New South Wales. This was not considered by the Defence Committee to be of high military importance but the Coordinator of Works drew attention to the dislocation which would follow any destruction of the Hawkesbury River bridge, and the conference which considered the provision of essential goods to meet an emergency emphasised the need for the link for civil supply purposes in an emergency.² The Defence Committee therefore reconsidered its decision but put this project at the end of the list, in effect giving it lowest priority.³

The subsequent negotiations about the Broken Hill-Port Pirie railway were complicated by conflicting estimates of costs, both of the railway and of alternatives such as increasing the efficiency of the existing tracks, and by conflicting estimates of time necessary to complete projects. The War Cabinet's decision of 4th November was interpreted as approving £634,500⁴ "for provision of suitable transfer facilities for break of gauge at border stations". The Commissioner for Commonwealth Railways now contended that to permit the handling of 40,000 tons weekly on the existing tracks a further sum of £1,939,000 would be required for additional locomotives and rolling stock, and that this brought the cost of utilising the existing railways (including the £634,500 already approved) to £2,573,500, which was some £400,000 above estimates for either a mixed gauge railway or a separate standard gauge railway. The War Cabinet directed the Coordinator of Works to furnish a recommendation of action which should be taken. His view, expressed after consulting the people involved, was that it did not seem possible to devise any other scheme which would provide equivalent safeguards in any time approaching the period of six months, and the urgency of establishing the safeguard placed beyond all doubt any question of alternative treatment. While the benefits of a uniform gauge might be obvious ("if present now, anxieties would not have occurred") eighteen months was the probable minimum time necessary, and "the conclusion is inescapable that no justification can be found on economic grounds for the provision of a 4 foot 8½ inch railway between Port Pirie and Broken Hill to meet ordinary needs of the community".

The Chief of the General Staff was not content with this recommendation and said as much in a submission to the Cabinet; the Minister for the Interior also pleaded that a long-range view should be taken, arguing that the provision of the new railway would mean that the same rolling stock could be used throughout the whole length of that line.⁵ The Minister for the Army accordingly directed further investigation by the military authorities with the result that in June 1941 future policy was at last firmly

² The conference met in Melbourne, 1-2 Oct 1940.

³ War Cabinet Minute 709, 22 Jan 1941.

⁴ £92,000 South Australia, £7,000 Silverton Tramway, £535,000 New South Wales.

⁵ Another member of the Cabinet, the Minister for Labour and National Service, had in Dec 1940 felt impelled to urge his colleague in Defence Coordination to "investigate further before we are completely committed to the makeshift scheme". He foresaw vigorous protests from the South Australian and Victorian Railways, who were popularly believed to oppose the scheme because through traffic would be diverted from their main lines.

decided, from the military point of view, by the reconditioning of the Port Augusta-Kalgoorlie road.⁶ With this assistance the time taken to transfer troops by rail from the eastern states to Western Australia could be satisfactorily reduced by the use partly of rail traffic, partly of road, across the "transcontinental" section.

The same War Cabinet decision directed that the new railway should not proceed—the solution to the military difficulty rendered it unessential in the opinion of the Chief of the General Staff, and the Coordinator-General had thought it inadvisable for economic reasons. Accordingly the problem of coal and iron ore transport between South Australia and New South Wales fell into line with the policy adopted for the solution of rail problems generally—increased efficiency of existing lines.

The amounts which ultimately were approved by the War Cabinet in November 1940 had not included provision for new rolling stock, an omission which was brought to the attention of the Principal Transport Committee in Defence Coordination.⁷ The reason given for the omission was the time which provision of new rolling stock would take, but, since some major railway works which would take eighteen months or two years were already being considered, the Railways Commissioners were asked to re-examine their rolling stock programme on the basis of eighteen months or two years. By December the committee was still without details from the railway authorities, and convinced of the importance and need for a uniform basis in determining requirements they sent the question to the War Railway Council. The needs, when they were forthcoming, were set at £1,041,700: New South Wales £186,700, Victoria £410,000, South Australia £370,000 (for 5 foot 3 inch gauge), £75,000 (for 3 foot 6 inch gauge) and included goods brake vans and wagons, and ten locomotives for Victoria and nine for South Australia. The Coordinator-General of Works investigated the proposals and the Loan Council in February 1941 agreed to an allocation of £500,000 for 1940-41 apportioned over New South Wales (£120,000), Victoria (£180,000) and South Australia (£200,000). It was recognised that none of the three railway systems had any margin of vehicles to spare; on the contrary a constant problem was presented to deal satisfactorily with the traffic already offered, and the increased loads resulting from the impetus given to industry made the position somewhat precarious. The Coordinator of Works had discussed the proposals with the three State Premiers, who naturally wanted the Commonwealth to undertake the obligation, but ultimately they had agreed to accept financial responsibility if funds could be provided. The Defence Committee, however, meeting at the beginning of May 1941, had other views. Asked by the Acting Prime Minister to take account of provision of locomotives and railway trucks in its review of priorities, "on the hypothesis that we are in the first stages of a war with Japan", the Defence Committee asserted that it is "imperative that for some time at least our actual and potential productive capacity should

⁶ War Cabinet Minute 1129, 5 Jun 1941.

⁷ Meeting 10-11 Oct 1940.

be utilised to the fullest possible extent to provide the Services' requirements of munitions and equipment", and the provision of rolling stock to cater for traffic diverted from the sea was subsidiary to this primary and urgent need and would absorb production capacity. Requirements of rolling stock were being assessed on the basis of complete cessation of seaborne trade, but the Defence Committee had in October 1940 expressed the view that such a situation would exist only for a period; they adhered to this view, and until the munitions position improved, transport should be met "with the existing resources of rolling stock and by the use of road transport as far as possible".⁸

The War Cabinet agreed with the Defence Committee; the £947,000 approved in November 1940, plus the £500,000 of Loan Council money, might be spent, but no more until the Munitions Boards of Area Management and the Railway Commissioners should have completed their report on the extent to which railway workshops could be utilised for the production of munitions, or, if already being used, could be extended. One item of new expenditure, however, was sanctioned because it affected troop movements to north Australia: £38,600 for the reconditioning of fifteen locomotives in South Australia to replace those hired to the Commonwealth Railways.

The rolling stock requirements originally submitted had pre-supposed, as well as cessation of seaborne trade, the restriction of the carriage of luxury items and the reduction of cross traffic. The Defence Committee drew attention to the Priorities Committee provided for in the War Book, and the War Cabinet in turn directed the Principal Transport Committee to consider the establishment of such a committee, and, in fact to report on planning for the control of rail and road traffic in war. In the view of the Principal Committee, however, the railway systems of Australia were not then working to maximum capacity, and the Priorities Committee was not required until such a stage should be reached. It was desirable, of course, that it should be in readiness, and they passed the question of appointing personnel to the Quartermaster-General. This was on 22nd May 1941; by 11th July, the next meeting, a new portfolio, for Transport, had appeared in the reconstructed Federal Cabinet, and the Principal Committee set about including this new authority in their plans for administration of transport.

COAL

Before beginning a review of the crowded and important six months before Japan attacked, it is necessary to consider in some detail the supplies of coal for which the railways were already clamouring, and for which they would continue to compete, with only partial success, for the remainder of the war. So far transport only of coal supplies has been considered. A more complex, and, in the end, more vital problem was the volume of those supplies available. Lack of supplies prompted anxiety

⁸ War Cabinet Agendum 168/1941.

about stocks, and when reserves could not be built up the possibility of having to curtail transport facilities came ever more close.

The predominant position of New South Wales in black coal⁹ production may be seen from the accompanying table.¹ Victoria, South Australia and Tasmania were all heavily dependent upon imports of New South Wales coal. Their dependence was even greater than the table suggests, in that the New South Wales predominance was not in quantity alone but even more strikingly in selected types of coal. The best grades of gas and steam coal came from the main New South Wales fields and especially from the Maitland-Newcastle area. It was from this area through the port of Newcastle that exports to the other States were made.

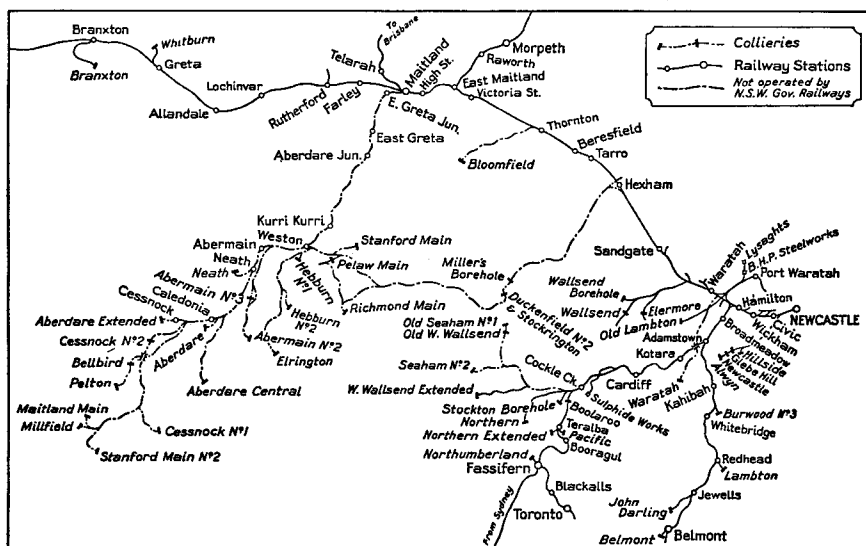
Year	N.S.W.	Vic	Qld	S.A.	W.A.	Tas	Aus
			'000 tons				
1935	8,699	476	1,052	—	537	124	10,888
1936	9,199	427	1,047	—	565	132	11,370
1937	10,052	258	1,120	—	554	91	12,075
1938	9,571	307	1,113	—	605	84	11,680
1939	11,196	365	1,317	—	558	99	13,535
1940	9,550	268	1,285	—	539	83	11,725
1941	11,766	326	1,454	—	557	110	14,213
1942	12,206	311	1,722	—	587	124	14,950

The movement of coal from the mines to the ships depended upon short railway links, especially that through Maitland from the Cessnock area, as illustrated in the accompanying sketch, partly over privately owned tracks and in privately owned trucks. This movement presumed close coordination between work at the pits, the movement of trains and the availability of ships at the coal-loading wharves, where there was very limited provision for storage. If ships were not available coal remained in the trucks, which could not be returned to the mines; the mines, themselves lacking large storage facilities, could be forced to cease production. From Newcastle, until war created shipping problems, the coal moved—even to Sydney 100 miles south—by coastal shipping because its freight costs were so much below those of the railways. Elsewhere in New South Wales, however, the railways were very heavy carriers of coal, and the explanation of the circumstances at Newcastle lay in the fact that here was the most productive coal field within roughly twenty miles of a seaport. One result of this situation was the close intertwining of the ownership of coastal shipping and mines.

⁹ Brown coal was important in Victoria where, however, it was mainly used in the production of electricity.

¹ Table 1 in Statistical Appendix to *Fifth Annual Report of the Joint Coal Board* (1951-52). Statistics of coal production were imperfect; those quoted, though open to some reservations, are generally accepted as the best available for the period concerned. The particular source is cited as readily accessible, but for this period the data are those supplied by State Mines Departments.

The chief reason for the fall in production for 1940 was a major strike of about ten weeks from 11th March to 20th May. The estimate of coal lost as the result of the strike was 900,000 tons, so that the actual rate of production for the time worked was comparable with other years. What the strike did do, however, was to use up the stocks held by industry, public utilities and railways; they carried on during the stoppage with restricted service only towards the end.



During May 1940 a Coal Distribution Committee was set up in New South Wales,² which organised statistics of production and consumption and rationed coal, ensuring supplies to utilities in New South Wales and to the Melbourne Gas Company. But although during the strike regulations provided for extensive powers to take stock of coal in the country, to open the mines, and to requisition coal, these were repealed after the strike ended, and replaced by Supply of Coal Regulations which gave the minister power to require coal owners to supply coal in such quantities and to such persons as he might specify; such coal was to be given priority by the owner, but "regard to all the relevant circumstances" was to be had when specifying the time within which the coal should be supplied.³ From 20th May 1940 returns, which included coal won, and to whom supplied, were to be provided by mine owners.

In connection with coal supplies, as in all else, events in Europe in June 1940 were followed by increased anxiety and planning. To the amounts required for normal reserves were now added those required for the

² It did not deal with requirements of Broken Hill Pty Co Ltd or Australian Iron and Steel as most of the coal requirements of these companies were derived from their own coal mines which were under efficient management and capable of great production.

³ Statutory Rules 1940, No. 61, 11 Apr; No. 79, 3 May; No. 85, 14 May; No. 86, 17 May.

"emergency" which would follow any extension of war in the Pacific, and any interruption to either coal production or seaborne transport of coal. The Prime Minister appealed to the New South Wales Government to establish coal reserves, and in reply the New South Wales Minister for Mines, who was chairman of the State Coal Distribution Committee, indicated that "New South Wales is prepared to undertake the wholesale distribution of this State's coal throughout Australia. In order that the State may do so, however, it will be necessary for the Commonwealth to proclaim regulations under the *National Security Act*, embodying principles as set out . . .". These principles included provision of returns by all users, suppliers and producers, and permission to an authorised person "to take such action as is deemed necessary by him for the building up of reserves of coal at such places where such reserves are deemed to be necessary".

Nothing was done about this suggestion, but the question of coal supplies did not lapse. Instead it received fresh emphasis at the hands of the Principal Committee on Transport. That committee considered not only the suggestions of the New South Wales Minister, but also those of the chairman of the Joint Colliery Owners,⁴ who feared that the resources of the coal industry had not been considered in planning the new munitions production programme, and that supplies of coal might prove inadequate. At first the Principal Committee was told that the Commonwealth Government "did not desire the Principal Committee to investigate the subject of production and building up of reserves of coal unless further advised",⁵ but they were too much aware of the gravity of the position to sit back, and drew the attention of both Commonwealth and State governments to the need for action. Their anxiety was fed by reports from the New South Wales Sub-Committee on Coal, and by the insistence of their colleagues on the Foodstuffs Committee⁶ that the work of providing foodstuffs in an emergency depended first of all on the provision of adequate coal for transport services.

After the strike the rate of production in New South Wales had been from 12,000,000 to 12,500,000 tons a year. This was, at the time, a record rate of production. It was not sufficient, however, to enable stocks to be built up to normal in less than a year, and to build up stocks large enough for an "emergency" would require still greater production. Sectional stoppages in the coal industry militated against the present rate of production being maintained. The aim was 300,000 tons a week or an annual rate of 15,000,000 tons.

The upshot was a decision that a sub-committee from the Principal Committee should report to the Prime Minister and "prepare a concrete recommendation as to the best means for dealing with the position".⁷

⁴ Hon. Thomas Armstrong, a member of the New South Wales Legislative Council.

⁵ As reported by the Chairman to the meeting of 22-23 July.

⁶ Full Cabinet Minute 471; Conference on supply and distribution of essential goods to meet an emergency was held on 1-2 Oct 1940.

⁷ Meeting of 10-11 Oct.

There was to be no delay, and on 4th November 1940 the committee found that reserves were inadequate, that sea transport might be interrupted for a number of reasons, that reserves were essential in all States including New South Wales and Queensland, that there had been delay in initiating action to meet the position. Increased production, from 11,000,000 to 16,000,000 tons a year, it was thought, could come from working increased shifts, employing more miners and opening up more mines, but it would require probably six months at the increased rate of production to meet demands for reserves for three months. Christmas and New Year holidays for miners would be unfortunate. Increased shipping space would be necessary.

The immediate action recommended was the creation of some authority with powers to collect reliable data, and keep it up-to-date week by week, showing for each State the facts concerning production, distribution, consumption and establishment of reserves of coal; the same authority should have power to control producing organisations, improve distribution, secure back loading of colliers, control consumption, if necessary, and secure reserves. The authority proposed was a Commonwealth Coal Commission with a Coal Board in each State; and to take the responsibility for finding the ships the Shipping Control Board should operate forthwith.

These proposals emerged as a submission by the Minister for Supply and Development. (As far back as July 1940 there had been the suggestion that "a small committee be constituted to control production of coal in Australia".)⁸ Industrial disputes and unsatisfactory production apart, the industry appears to have been open to criticism of its "normal business arrangements". These, said the Minister, "appear to be dominated by the interstate shipping companies; the sources of New South Wales coal supplies are not fully employed and there is intermittency of production in mines which are less directly associated with the shipping companies. It is usual for contracts to be arranged at prices which include delivery by the latter, and subject to their shipping, loading, berthage and other commercial convenience." He regarded the shipping control which had, by 3rd December 1940, been approved as "no doubt the first essential for coal control and I hope that the first action to be taken will be to 'rationalise' the shipment of coal, to allocate adequate tonnage, and to see that it is used in the most efficient manner in the interests of essential coal consumers in the various States".

He proceeded to outline a proposed Commonwealth Coal Board (which would work in closest cooperation with the Shipping Control Board), with a Controller of "adequate standing" and with subsidiary boards or agencies in the other States. The immediate objective was to be the building up of three months' stocks of New South Wales coal in the other States. But the Minister and his department would appear to have been aware of the changes necessary in the industry if such a board was to achieve its object. For instance, if delivery was to be rationalised, this

⁸ Full Cabinet Minute 308.

would be possible only if consumers could be persuaded to take, on occasion, different types of coal and from sources other than those to which they normally looked for coal. It was necessary that collieries should not be laid idle for lack of orders or of ships or rail facilities. "Consumers in the other States must therefore be induced to place their orders and to accept stocks for supply at the discretion of the Coal Board." The possible need to ration coal must not be forgotten in furnishing the board with adequate powers, and not the least of its needs would be adequate statistical data on stocks, production, and shipment.⁹

In another important quarter—the Advisory War Council—an effort was made at joint discussion by bringing together government representatives and representatives of the owners and of the miners.¹ The position revealed was:

Stocks at 20th May 1940 at end of strike	150,000 tons
Production in New South Wales, 20th May to 24th November	6,518,000 tons
Weekly average	242,000 tons
Production for week ended 24th November	264,000 tons
Stock held by public utilities and the steelworks at 24th November	850,000 tons
(varying from 6 to 17 weeks' supply)	

Unless the Government desired to build up special reserves there was no need, so the discussion ran, to increase production, as the solution of the normal commercial reserve situation in States other than New South Wales was dependent upon the shipping available and continuity of production. Both owners' and employees' representatives were unanimous that an extra shift was not necessary and that it was not necessary to interfere with the proposed Christmas holidays.

Indeed, stocks in New South Wales were "approaching the economic maximum from the viewpoint of the holders. Any increase would involve additional outlay for storage capacity, and interest on the capital value of stocks which exceed the economic margin". The emphasis was on building up stocks at the point of consumption: in Victoria and South Australia among the new munitions projects. And there was of course mention of the inherently unsatisfactory feature of coal production: "in the shipment of coal from Newcastle the coal was loaded at the mines on to the trucks

⁹ The Cabinet submission (29 Nov 1940) was accompanied by a statement on current supplies and reserve stocks. This saw three parts of the problem: shipping, production and finance. "Broadly there appears to be about 6 weeks' supply generally throughout Australia. . . ."

In New South Wales the railways had 7 weeks' supply, the steel works 6 weeks', electric power works 13 weeks', and the chief gas works 10 weeks' supply. Annual consumption was set at about 7,680,000 tons.

In Victoria there were "practically no railway or gas reserves . . .". Annual consumption was set at about 1,700,000 tons of New South Wales coal of which 400,000 was for railways and 500,000 for gas and electric power.

In Queensland where some local supplies were available it would take 38 weeks' continuous output to build up 3 months' stocks. Annual consumption of New South Wales coal was set at 20,000 tons.

In South Australia the substantial pre-war stocks had been much depleted. A major problem was coke for the Port Pirie lead smelters for whom the demand was 750 tons a week, but they had been averaging 280 tons a week. Annual consumption of New South Wales coal was set at 650,000 tons.

Western Australia and Tasmania had local supplies but also needed New South Wales coal, consumption of which was set at: Western Australia 80,000, Tasmania 100,000 tons a year.

¹ Advisory War Council Minute 60, 6 Dec 1940.

and transported to the wharf where it was loaded direct into the ships. If there were lack of shipping, delay in the arrival of vessels, or in their loading, production at the mine ceased owing to the lack of trucks. This rolling stock was provided by the coal companies." Pressure for the establishment of a coal authority was thus being exerted from a number of sources, and the Government, answering these insistent voices, sanctioned regulations for a Commonwealth Coal Board.

These regulations, however, were preceded by others which sought to improve the arbitration and conciliation machinery of the industry, and since industrial relations in coalmining, though not directly the concern of the present volume,² bear upon it at so many points, it is necessary to record some of the features of this most difficult problem.

Industrial disputes had been frequent and from 1939 to 1942 working days lost in the coalmining industry were to amount to 64 per cent of the total for all industries in Australia.³ They represented 91 per cent of the total for 1940. The number of workers employed in the production of black coal in New South Wales was:⁴

1935	.	.	.	12,788
1938	.	.	.	14,828
1939	.	.	.	16,144
1940	.	.	.	16,777
1941	.	.	.	16,812
1942	.	.	.	16,634

The numbers were small but they were vital.

The Government's effort to improve the state of industrial relations in coalmining here took the form of an attempted improvement of the machinery for settling disputes, and involved the creation of a separate authority, not entirely outside the Commonwealth Court of Conciliation and Arbitration, since the head of the new authority was a judge of that court, but working independently of it.⁵ The regulations,⁶ which were the responsibility of the Minister for Labour and National Service, provided for a Central Reference Board which would have power to consider any dispute, including power conferred on the Arbitration Court by the National Security (Industrial Peace) Regulations. Awards by the board might be enforced as if they were awards of the court. In addition, there were to be Local Reference Boards which would attempt to settle disputes arising out of any awards by either the court or the central board, to endeavour by means of conciliation to settle disputes, to investigate and report on any referred to them by the central board. The aim was obviously to provide machinery at the source of disputes and, if possible, to check disputes before they developed.

² See P. Hasluck, *The Government and the People 1939-41*, in this series.

³ A. G. L. Shaw and G. R. Bruns, *The Australian Coal Industry* (1947), pp. 136-7. From 1928 to 1933 the comparable figure was 63 per cent; from 1933 to 1938 56 per cent.

⁴ Table 15 in the Statistical Appendix to the Joint Coal Board's 5th Annual Report.

⁵ Judge E. A. Drake-Brockman was appointed.

⁶ National Security (Coal Mining Industry Employment) Regulations, Statutory Rules 1941, No. 25, 10 Feb.

By the end of 1941 sixty-two findings were recorded. On 3rd May the Central Reference Board ordered the payment of a wartime loading of 5 per cent on award rates, but it was clear that the judge held strongly the view that increased output was the vital question:

The Board is impressed with the necessity for an increased output of coal for war purposes and for purposes necessitated by war conditions. In particular a much greater output is required in those mines which manufacture for munitions and the raw materials required therefor.

He deplored the lack of improvement both in "avoidable intermittency and absenteeism". "Until better time is worked the present requirements of coal in Australia will not be produced." Accordingly he announced:

I desire to stress that what is now granted is a war bonus given for the purpose above indicated. Those who do not deserve it should not receive it. If an early improvement in respect to stoppages and avoidable absenteeism does not result in accordance with the assurance of union officials, the Board may have to reconsider the method of imposing the war loading with a view to seeing that only those who really deserve it, receive it.⁷

Demands for more coal involved almost invariably some reference to inadequate stocks; "enough" production was seen in terms of accumulating stocks. It is evident that the word was used loosely and by some was taken to mean the normal working stocks of peacetime practice—the stocks which had been used up, for instance, during the strike of early 1940; by others it was taken to mean the much larger stocks which they were convinced must be accumulated against the emergency of war. Estimates of needs varied accordingly, but all were agreed on the primary need to increase stocks.

There were those who argued that it was only the attitude of the miners which prevented sufficient stocks being built up, and blamed the disturbed industrial relations of the industry. The place of the stocks question in industrial relations—why miners' organisations were allegedly not anxious that stocks should be replaced—and the growing strength of labour as a result of war, are not examined here, although such matters should be borne in mind. What is important for the present story is the fact that, given insufficient stocks—from whatever cause—the immediate need was to increase them by whatever means lay to hand. Lack of stocks heightened the emphasis on distribution, the state of which had not, up to this time, received much attention. Attention to it revealed not only complexities, which would make intervention difficult, but also the unfortunate effect of the close relation between production and shipping, and the host of problems which, if they could be solved, and distribution made more efficient, would result in current production being moved more quickly.

It was, therefore, not so important as it might seem that the first Commonwealth wartime coal authority was not equipped with powers over production. Improvements in distribution were, at this stage, the central problem presented for action, the necessary condition for major increases in production or the attainment of adequate stocks.

⁷ *Commonwealth Arbitration Reports*, Vol 44.

COMMONWEALTH COAL CONTROL

The regulations which established the Commonwealth Coal Board,⁸ were published three days after those for the Coal Reference Boards. In the words of the regulations:

The Board is empowered to control the supply, distribution, storage and use of coal and for that purpose to take such measures, give such orders or directions, and do such things as it thinks necessary or expedient and is charged with the administration of these regulations and of all matters arising thereout or incidental thereto.

In effect, the functions of the board were limited to control of coal once it had reached the surface and was available for distribution.⁹

The board met for the first time on 17th February 1941, and "the question of facilities for immediate loading of all available ships requiring coal at Newcastle was fully discussed with a view to overcoming obstacles created by the existing national emergency". A conference between board members and the colliery owners followed, at which the latter disclaimed the need for any "pool" since "they had been able to supply the whole of the interstate facilities made available for the interstate coal trade". But on this point there appeared to be some doubt, for it was reported that "in some cases vessels waited from two to two and a half days for particular colliery coal while coal of a similar quality was standing on the wharves".

Here was a vital feature of the whole problem, the right of consumers to choose their particular type of coal, and their own supplier. The regulations had empowered the board to requisition coal, and notice had been served on "owners of all mines in New South Wales with outputs exceeding 1,000 tons a week, requiring certain information relating to output, seams, analysis of coal, storage and waggons". Under the same rule consumers were "required to furnish information giving details of coal used, purpose, class of plant and quality of coal required in order of preference in grades set out". Henceforward the energies of the board were directed to simplifying distribution by removing duplication; by persuading consumers to accept either substitute types of coal, or coal from sources other than those they had been used to. Equally the colliery owners had to be persuaded to forego established practice and, since they were frequently also the shippers, to forego peacetime methods of shipping.

⁸ National Security (Coal Control) Regulations, Statutory Rules 1941, No. 33, 13 Feb.

The board's personnel was: Mr Justice Davidson (Supreme Court of N.S.W.) Chairman, Hon T. Armstrong, M.L.C. (Chairman of Directors of J. & A. Brown and Abermain Seaham Collieries Ltd), C. Nelson (Australian Coal and Shale Employees' Federation), A. G. Denniss (Chief Traffic Manager, N.S.W. Railways), S. McKensy (Superintendent, Hebburn Collieries Ltd), W. H. Tucker (Dept of Supply and Development), E. McCarthy (Dept of Commerce).

⁹ *Parliamentary Papers* 1945-46, No. 51, Report of the Commissioner appointed to inquire into and report on The Coal-mining Industry; para 28 says "The Board was vested with widely comprehensive powers to control the production and distribution of coal and included representatives of the owners, the Federation and consumers. This step was rendered necessary owing to the difficulties experienced in various States of the Commonwealth in procuring sufficient supplies of coal from New South Wales. Accordingly the Board's function was to encourage a greater output and thereafter to allocate it as fairly as possible amongst consumers in New South Wales and elsewhere in the public interest". As will be seen, the activities of the Board—and in particular its chairman—did range widely, but the terms of the Board's appointment should be compared with those of the succeeding Commissioner who was entrusted specifically with powers over production.

The board's task was not easy. It was the first authority to break into established peacetime ways. It is fair to say that no later authority had as much difficulty. Some collieries were tractable, some truculent; once or twice there were flagrant attempts by either producers or consumers to misrepresent the activities of the board, or the repercussions which, it was alleged, would ensue from the activities of the board.

Liaison with the Shipping Control Board was close and active; a member of the Marine Branch of the Department of Commerce, then the secretariat for shipping, was a member of the Coal Board. Moreover the close relations were repeated at Newcastle where the Coal Board's committee contained men who were also the Shipping Control Board's representatives at that port.

An effort was being made to enlist overseas vessels in the carriage of coal before the Coal Board began work; especially to ease the position in Victoria where the State Premier's complaints about stocks for the railways had reached the Shipping Control Board. This departure from peacetime practice involved not only additional cost, but the necessity to discriminate in deciding which States should receive coal in overseas vessels. The chairman of the Associated Steamship Owners expressed the opinion that Melbourne was "behind the times in the matter of coal unloading facilities and many overseas vessels are poorly equipped for discharge under their own steam. Adelaide would be a better port for overseas vessels." But immediately there arose the question of how to avoid unfairness; Adelaide would bear all the extra cost, and Melbourne receive the whole benefit of extra coal for reserves. He also foresaw difficulty with the miners who, if they saw an overseas vessel loading in Newcastle, would stop supplies on the ground that it meant building up reserves "the existence of which, in their view, would be inimical to their interests as interfering with the success of any strike their Executive Council might think fit to order . . .".

In fact, overseas vessels were ultimately employed to augment the shipping available to lift coal, most frequently those under the control of the Shipping Control Board, but now and again others were available.¹ Not

¹ Statistics for this early period are incomplete; indeed, not the least important of the Coal Board's achievements was the systematic collection and collation of such data. A quantitative indication may be gleaned from the following:—

Coal shipments from Newcastle to interstate ports:

Week ending	Total tons	Overseas vessels tons	Destination
1941			
16 Mar	71,131		
23 "	51,649		
30 "	67,272	8,791	Victoria
6 Apr	45,245	8,278	
13 "	44,584	7,588	"
20 "	52,122		South Australia
27 "	43,176		
4 May	62,149		
11 "	48,990	8,228	South Australia
18 "	54,663	7,574	"
25 "	42,926		
(figures for intervening period not available)			
31 Aug	39,153		
7 Sep	56,149		
14 "	36,747	7,771	South Australia

the least of the difficulties attending the use of such vessels was the damage that could be, and was, sustained in the course of coal-carrying; problems in unloading were also experienced, though not, probably, to the extent that had been predicted. By the beginning of June 1941, according to the shipping representative on the board, oversea ships had carried 100,000 tons of coal.²

From the beginning the chairman made clear his opinion that the board should work through State committees, and the first to be appointed was that at Newcastle, the most important point of distribution.³ Other State committees appointed were at Melbourne,⁴ where the Coal Controller already appointed by the State Government became a member; and at Adelaide.⁵

From its inception the board was alive to the improvements which must be effected in loading equipment if the transport of coal was to be speeded up; and of the need for storage dumps where coal might be placed when transport was not available. Gear at Newcastle was improved, and unloading facilities at Melbourne also. In the latter port coal was hereafter unloaded at one point as a move towards greater efficiency. In conjunction with the coal-loading wharf at Newcastle, which it sought to improve, the board selected a site at Port Waratah for storage, and as early as February 1941 began negotiations for the construction, including levelling, paving etc. The project was to have a most unsatisfactory history; progress was dogged by the complexities attending State ownership of the land; conflict in survey reports; the slowness of departments charged with construction. At the board's last meeting on 14th August 1941 the chairman regretted that "for reasons beyond the board's control greater progress had not been made with the construction of the important reserve coal stock area at Port Waratah". The area was planned to take 200,000 tons of coal, and the board had in view—besides the new wharf—dredging of the harbour to assist the safe and speedy loading of ships. Elsewhere dumps

21 "	57,484	7,431	Victoria
28 "	51,683		
5 Oct	33,648		
12 "	67,027	6,865	South Australia
19 "	36,078		
26 "	67,566	16,881	"
2 Nov	48,250		
9 "	55,608	8,210	"
16 "	60,937	8,455	"
23 "	45,530	8,267	Victoria
		16,092	South Australia
30 "	59,393	8,046	Victoria
		7,210	Western Australia
7 Dec	61,428	8,473	South Australia
14 "	51,320	15,933	
21 "	51,403		"
28 "	35,759	15,703	"

² Considerably more than the recorded figures in the table, from which the figure would appear to have been not more than 56,000 tons.

³ E. T. Bartleet (Adelaide SS Co.) chairman, R. E. Evans (N.S.W. Railways), G. W. Harrison (Hebburn Collieries Ltd).

⁴ G. Brown (Controller), H. L. Williams (Brown's Coal Pty Ltd), A. D. Mackenzie (Harbour Trust Commissioners).

⁵ J. P. Burnside was the Board's representative. A committee for South Australia was under discussion when N. R. Mighell became Coal Commissioner.

M. S. Wilson was the Board's representative in Tasmania.

were planned at Dubbo, Cootamundra, and Port Kembla. The first, the construction contract for which revealed some unsatisfactory features about which the board was justifiably perturbed, was for coal from Muswellbrook and received over 5,000 tons by the end of July; Cootamundra was intended to take coal from Lithgow.

Liaison with the railways, who were responsible for much of the construction in connection with storage dumps, extended to the consumption of coal also. The railways were among the heaviest consumers of coal, and also offered an alternative method of transport to distant consumers. Conferences with the Victorian Railways resulted in an arrangement for them to accept coal from the western (Lithgow) fields, and this was taken to Wodonga on the Victorian border where it was reloaded into Victorian trucks. This wartime innovation was expensive, and for obvious reasons had not been the practice in peacetime, but it provided some alternative to shipping.

Apart from these attempts to overcome the emergency, the board was unremitting in its efforts to persuade users to vary the types and quality of coal they used. Thus, to keep Maitland Main colliery in production, the New South Wales Railways took 2,000 tons of large coal pending the arrival of shipping; coal from the railways dump at Port Waratah was used if necessary to load ships; small coal from the western fields was disposed of to the Sydney County Council for electricity generation; so that the railways might help to release southern coal for use by Australian Iron & Steel Limited at Port Kembla, the board sought to get them to use a blend of Maitland and western coals. Some mines, hampered by the poor quality of their coal, sought the aid of the board; indeed, one of the keys to the whole situation was the excessive demand for the favoured Maitland coal, of high calorific value. The board sought where possible to direct it to the uses where it was most essential, and in doing so was forced at times to disappoint users who had hitherto, sometimes wastefully, burned this coal.

In all this the most common problem was the difference in cost due to higher freights—whether because the coal was carried on the oversea vessels, or by rail. There were two sides to the problem: the case of the consumer asked to pay higher freights, and the case of the consumer who, since he was fortunate enough to be able to continue to receive his coal by the ordinary transport, continued to pay the usual freight. As a beginning the board instituted a surcharge of 1s 3d a ton on all freight, and this was paid into a fund, the Coal Freights Equalisation Fund, authorised by regulations of 8th May 1941.⁶ Into this would be paid such increase in freight rates in respect of coal carried interstate by ships usually trading on the Australian coast as the Coal Board thought fit; the board would apply the fund to relieve the burden of the higher rates of freight or other charges payable in respect of coal carried interstate by oversea ships.⁷ In

⁶ National Security (Coal Freights Equalisation) Regulations, Statutory Rules 1941, No. 95.

⁷ The arrangement was substantially that used in England to cover the disruption of peacetime distribution procedure and price differences. (See W. H. B. Court, *Coal*, in the civil series of the United Kingdom history of the Second World War.)

the case of the coal for the Victorian Railways the board sought, unsuccessfully, to persuade the New South Wales Railways to allow some reduction in freight rates.⁸

By contrast the reductions effected in rail rates for munitions were most satisfactory. There were a number of reasons why the Department of Munitions sought concessions, and, having secured them, elected to have all its contracts on the basis of free delivery to rail head, the department paying all freight.

The reduction in shipping from requisitioning, as well as the hazard attached to sending vital materials by sea, had reduced the use of this transport for munitions; road transport had been reduced by petrol rationing until it was little more than factory to store movement. The resulting emphasis on rail transport threw into prominence the conflicting State rail freight charges, the increased overall cost, and the many special handling charges.

Early in 1941 special rates were arranged. In New South Wales, for example, the special intersystem rate of 1½d per ton per mile for munitions represented 12s 6d against £4 4s 4d ordinary rate for 100 miles; £1 17s 6d against £8 16s ordinary rate for 300 miles.

The addition of heavy freight charges in cost-plus contracts increased the return to the contractor; on the other hand the reduced rates represented a saving for those who had contracted on a cost-insurance-and-freight basis. Ultimately the department decided that it would pay all freight; the new arrangement removed disabilities of high transport costs from manufacturers in distant towns.

Beyond the attempts to improve distribution of coal, there loomed continually the state of the industry itself. Mr Justice Davidson⁹ has written:

It appears to be an almost universal characteristic of coal mining that it provides a breeding-ground for most forms of dissension that can afflict an industry and retard its progress.¹

In 1941, as chairman of the first Coal Board, he went far beyond the formal limits of his appointed task in his efforts to improve the coal position. Careful that "interference with the functions of other bodies constituted for the purpose of handling industrial disputes" should not take place, he nevertheless met shipping interests, conferred with miners and mine workers, arranged for press statements, addressed colliery managers, superintendents and owners; where possible he assisted in the settlement of actual disputes.

The number of working days lost in the industry during 1941 was:

⁸ But a request by the Coal Commissioner in February 1942 was to be followed by a reduction.

⁹ Hon Sir Colin Davidson. Justice Supreme Court of N.S.W. 1927-48; Chmn C'wealth Coal Board 1941; Chmn Royal Commissions on Coal Industry 1929-30 and 1945-46. B. Mudgee, NSW, 18 Nov 1878.

¹ Opening sentence of the 1946 Davidson *Report*.

Quarter ended	March	.	.	.	.	59,795	
"	"	June	.	.	.	43,756	
"	"	September	.	.	.	128,742	
"	"	December	.	.	.	43,312	
							275,605

Davidson was increasingly concerned at the effect disputes had on production; in May he reported to the War Cabinet on what he considered the influence of subversive activities in the fields.² But his board was restricted to distribution, and it was in this, as we have seen, that the board affected what improvements it could.

A change in the coal authority was foreshadowed by the Prime Minister's speech of 17th June 1941 when he announced the establishment of a Coal Commission "to control and direct the production, distribution, supply and consumption of coal". The significant addition was control of production.

There were discussions in the Economic and Industrial Committee of Cabinet on 24th July 1941 about the appointment of a commission which, it was suggested, would have two committees under it: a production committee and a distribution committee. There was considerable uncertainty about personnel and the Economic and Industrial Committee agreed in principle on a selection for Director-General or Controller of the Coal Industry, with two others, one from industry, another from labour, to be associated with him. Davidson took part in discussions which preceded the new regulations, although it seems probable that at the time of the Prime Minister's announcement he did not know that the intended change had been adopted. At all events his wisdom and experience guided the new authority, and the draft for the new regulations was his work.

On 8th August 1941 "contrary to the wishes of the Miners' Federation"³ the Coal Board was superseded by a Coal Commissioner.⁴ The powers of the new Commissioner, Mr Mighell,⁵ were comprehensive:

The Commissioner is empowered to control the production, treatment, handling, supply, distribution, storage, marketing and use of coal and for that purpose, and the purpose of exercising any of his powers and functions under these regulations, is empowered

(a) in pursuance of sub-section 3 section 5 of the *National Security Act* 1939-40 to make such orders; and

(b) to take such measures, give such orders or directions and do such things as he thinks necessary or expedient.

² See P. Hasluck, *The Government and the People, 1939-41*, for discussion of this period. It was notable for a wave of strikes in other industries, including protest strikes on behalf of the interned Ratliff and Thomas. The entry of Russia into the war on 22nd June revived the considerable public discussion of the Communist Party and its activities.

From 29th July to 19th August a strike by engine drivers on the vital rail link (for coal), the South Maitland Railway, accounts for the large figures in the September quarter quoted above.

³ 1946 Davidson Report, para 33.

⁴ National Security (Coal Control) Regulations, Statutory Rules 1941, No. 189, 8 Aug.

The following were associated with the Commissioner: S. McKensy, Superintendent of Hebburn Collieries Ltd as production manager (replaced in Dec 1941 by R. P. Jack); H. Leman Williams, Managing Director of Brown's Coal Pty Ltd in Victoria as distribution manager. R. P. Jack, senior inspector of collieries in the N.S.W. Dept of Mines was Chief Executive Officer.

⁵ Sir Norman Mighell, CMG. (1st AIF: Sgt 15 Bn 1914-15.) Chmn Repat Commn 1935-41; C'wealth Coal Commr 1941-46; Dep High Commr for Aus in U.K. 1946-50. B. Gordonvale, Qld, 12 Jun 1894.

A production manager and a distribution manager were appointed to assist the commissioner, and he continued to be associated with coal committees in the States as the board had been. The commissioner, like the board, emphasised the importance of and the excellent work achieved by the committee at Newcastle. Those weekly letters from the chairman which have survived, record clearly the difficulties encountered from day to day in relating production, transport and distribution. For example, on 6th October he wrote:

The low tonnage of coal shipped interstate last week was very unfortunate due to lack of and late arrival of vessels, as up to 6 a.m. Thursday we had loaded only one vessel, "Wear", 2,500 tons, and as a consequence all Maitland collieries had great difficulty in continuing production, but due to the assistance of the Government Railways and steel works dumping coal on their stacks and an additional two cargoes to Sydney Gas Co. all collieries not on strike managed to keep working; quantities of coal diverted in this manner are as follows:

Railway stack	2,100 tons
Steelworks stack	4,161 tons
Australian Gaslight Co, Sydney, 2 cargoes	3,000 tons

An instance of delay of tonnage which could have been avoided is the late arrival at Newcastle of the "Goulburn". This vessel was discharging general cargo in Sydney on Tuesday last and in view of tonnage and the urgency to release colliery waggons it was strongly urged that the vessel continue discharging cargo during Tuesday night. The suggestion was refused with the result that due to further delay owing to subsequent rain the vessel did not commence loading at Newcastle until 6 a.m. Friday and therefore was of little assistance in working the collieries, whereas if the vessel had worked cargo in Sydney as suggested she would have assisted colliery working to the extent of 3,500 tons and sailed midday Thursday, but due to this delay she did not sail until Saturday.

As occasions of this nature are not by any means unique we suggest that your commission make a strong recommendation to the chairman of the Shipping Control Board that vessels discharging general cargo in Sydney and fixed to lift cargo at Newcastle make it a practice that discharging continue throughout the first night at Sydney provided weather is fine unless Newcastle advise that cargo coal is not available at Newcastle due to strikes, breakdowns etc.

and on 20th October 1941:

All vessels secured their full requirements and no Maitland collieries lost work through lack of trade but the following were on strike and idle: Aberdare Central idle on Monday, Elrlington on strike Tuesday, Millfield on strike Tuesday and Wednesday, Aberdare Extended idle part of Monday and on Tuesday, Bellbird Nos 2 and 3 and Abermain No. 2 on strike on Wednesday, Neath on strike on Tuesday.

With the important addition of control over production the work of the commissioner continued that begun by the board. The construction of dumping areas still proceeded unsatisfactorily.⁶ Stocks continued to decline steeply as may be seen from the contemporary graph reproduced here.

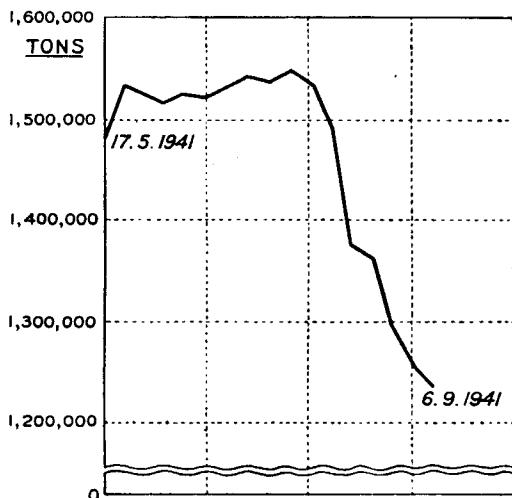
This was the time chosen by the New South Wales Government to provide for the retirement on pension of miners over the age of 60, which was estimated, after the employment situation had been stabilised, to

⁶ As late as 30 Jun 1942 an agreement with the Railways Commissioner over the "coal storage and handling facilities at Port Waratah" had still to be reached.

reduce output by 2,750 tons a day. The commissioner's production manager urged that miners should be prevented from leaving the industry.

Thus in the weeks preceding Pearl Harbour the important achievement was the extension of the control and rationalisation begun by the Coal Board in the preceding February. Certain features were emerging which would prove troublesome later: price control was within the compass of the new Coal Commissioner, but since machinery of this sort already existed under the Prices

Commissioner the powers in this regard were delegated to him; the industrial affairs of the industry continued to be the concern of the Central Reference Board under Judge Drake-Brockman,⁷ with local reference boards operating in the various coal districts, but these industrial authorities had no allegiance to the Coal Commissioner and he no authority to direct them to proceed to hear and determine any matters which came to his notice as being likely to cause interruptions to



production; health and safety in mines were also beyond the jurisdiction of the Commissioner as the State Mines Departments continued to have sole jurisdiction in respect of this important aspect of coal production. Thus it will be seen that at the end of 1941 three authorities besides the Coal Commissioner were concerned with the control of the coal industry: the Prices Commissioner, the Coal Reference Boards, and the State Departments of Mines, particularly in New South Wales.

Of special importance was the fact that on 7th October 1941 a Labour Government took office in the Federal Parliament. The political importance of coal—especially in the sphere of labour relations—has already been stressed. It was not likely that the energetic Minister for Labour in the new Federal Government would accept indefinitely the administrative arrangement of a Coal Commissioner associated with two managers and with State committees none of which had any trade union affiliations. The arrangement of August lasted until February 1942 when a Commission replaced it, with a representative of the Australian Coal and Shale Employees' Federation included among its members.⁸ Despite the new arrangement, Mighell retained his position "to the acknowledged satisfaction of

⁷ Maj-Gen the Hon. E. A. Drake-Brockman, CB, CMG, DSO. (1st AIF: 11 Bn; comd 16 Bn 1916-18, 4 Inf Bde 1918-19.) Judge of C'wealth Arb Ct from 1927; Chief Judge 1947-49; Chmn Central Coal Ref Bd from 1941. B. Busselton, WA, 21 Feb 1884. Died 1 Jun 1949.

⁸ National Security (Coal Control) Regulations, Statutory Rules 1942, No. 51, 6 Feb.

practically everyone in the industry".⁹ Henceforth, however, the emphasis on labour relations was to grow; but that development belongs to the later years.

While the arrangements for the coal industry were evolving, discussion was proceeding on the new organisation for the control of land transport; and while the Government was doing all it could to improve the coal position—both in production and distribution—the active interest in transport administration meant that something could be done to control consumption as well, or to begin with, to reduce (by elimination of duplication for instance) the demands which were being made on coal production by the transport services.¹

Such restriction of road transport as had been achieved through petrol rationing meant that those affected turned to the railways. There were growing demands, also, from the munitions programme—by now a factor sufficiently large to affect the peacetime arrangements of the railways.

In the earliest plans for the administration of railways in war, it will be recalled, provision had been made for a priorities committee and it had been expected that civil use of the railways would be controlled by such a body, thus releasing capacity for more essential defence purposes. In July 1941 the War Cabinet had directed that this Priorities Committee be appointed, and, as mentioned earlier, consideration of this question coincided with the establishment of an organisation under the new Minister for Transport. As a beginning the Defence Department's transport organisation went to the new minister, but it was November before the actual records were handed over.

Before the new Department of Transport could proceed a major obstacle had to be overcome in framing regulations which would prove acceptable to the several States, who jealously guarded their sovereignty over railways and road transport. A comment on an early draft revealed the problem: "... the chief difficulty will be to relate 'utmost power with State Director Emergency Transport' and the fact that the regulations are intended to introduce unequivocal Commonwealth control." Original drafts by the Principal Committee were superseded by separate sets of regulations, one for road transport, one for rail transport, and these ultimately became the regulations of 3rd December 1941.² Not until then were the functions of the Department of Transport defined, thus indicating how far short of the practical solution earlier plans for control of transport had been. The Cabinet directed on 4th November that a draft of the regulations should be circulated to the Premier of each State, the Railway Commissioners be called together to consider the effect of the regulations, and a conference held to make financial adjustments. The Director of Transport pointed out,

⁹ 1946 Davidson *Report*, para 33.

¹ The increased demands which arose from an inflated industrial effort were, of course, part of the Coal Commissioner's task of increasing coal production. The basic needs of industry—fuel and power—had not been quantitatively assessed, but, in a general way, it was obvious to all that an increased industrial war effort would mean greater demands for coal.

² Statutory Rules 1941, Nos 278 and 279.

however, that the War Railways Committee provided for in the regulations (in effect the Railways Commissioners) was to be called together as soon as the regulations were gazetted, and that it was "much more necessary to call a conference of the controlling road transport authorities appointed by the State Premiers to coordinate with the Commonwealth authority as no organisation exists for the operative control of road transport, and this will also be attended to immediately the regulations are approved by Cabinet."

Vacillation continued right up to the days immediately preceding the gazettal of the December regulations, the Director personally telephoning Brisbane and Melbourne to overcome objections raised in those States. Chief among those objections had been the need to arrive at some financial adjustment, and the need for indemnity should accidents occur through the variation of the normal conditions for the carriage of goods, especially explosives.

To begin with there was a Director of Transport and under him a Director of Road Transport and a Director of Rail Transport, but administrative difficulties were to persist until March 1942.

CHAPTER 13

THE PROBLEM OF LIMITED RESOURCES

ASSUMPTIONS that it would be possible to wage war without unduly disrupting peacetime practice, and that there existed untapped "resources" on which the needs of war might draw indefinitely, were assailed in 1940. They were quite destroyed by the end of 1941. By the middle of 1941 the conviction that civilian consumption must be restricted by direct, in addition to the indirect methods so far adopted, was established; there remained however the task of implementing that conviction—in the political as well as in the economic field. This conviction, however, was part only of a wider realisation that to "touch one is to touch all". To restrict one section without taking care of the rest was to risk everything. And in the same way the discovery—made empirically on most occasions—that there just was not going to be enough to go round, let alone to "develop" limitlessly, prompted the need to so direct and distribute what resources were available, that the limits of the war effort might be as wide as possible.

Priorities—in 1940 a vexed discussion about the division of the general economy into essential and non-essential sections—were by 1941 related to the allocation, within the essential sections themselves, of scarce resources either of labour or materials. If those sections, by now accepted and established as vital in war, needed an adjudicator to allocate their supplies, the wants of non-essential industry should long before have been rejected, or at least rigorously scrutinised.

The piecemeal approach was no longer tenable; and the administration, reorganised in June 1941 after the Prime Minister's observant journeyings abroad, sought to implement the needs of the economy as they now appeared. But, in part for reasons of politics, in part because machinery is not to be created overnight, such action took more than six months; yet in the end the machinery set up was very much what had been planned in June at the beginning. But there were two differences: a new government—confident of its ability after the manner of new governments—in October; and in December the entry of Japan—the enemy which, in the pre-war plans, was to have been a belligerent from the start.

RESTRICTION OF IMPORTS

Though administrative machinery to cope with restriction of imports had settled down to a smooth routine by the middle of 1940, higher policy decisions on the extent to which it should be applied had not. At a meeting of the Seaborne Trade Committee the Commonwealth Bank's representative voiced the opinion that: ". . . the present system is not now achieving what is desired in the way of conserving exchange . . . that all non-essentials should be prohibited." Most emphatically the Bank opposed proposals to extend licensing periods to six months. If this were done "an obstacle would

be placed in the way of making further restrictions on imports until six months had elapsed".

Discussing the possibility of restriction of sterling imports the Department of Trade and Customs pointed out that non-sterling imports had not been cut to the limit; and that, while a tentative list of sterling prohibitions amounting to approximately £8,000,000 had been worked out, 'Australia must first of all satisfy the United Kingdom authorities that she had gone as far as could reasonably be expected in the prohibition of non-sterling imports. In the event the licensing periods remained at three months; and prohibition of sterling imports was shelved.

At a Seaborne Trade Committee meeting on 13th-14th June the possibility of import licensing on a value basis instead of an item basis was discussed, because a number of trade interests were pressing for this alteration. The Department of Trade and Customs (and the Bank) opposed this, because the present system was "based on the theory that goods must be restricted, but should selection of imports be left to individual traders this would be viewed from a profit-making aspect and an importer could bring about an artificial shortage in an essential commodity, knowing that the Government would be forced to give an import licence for that commodity". The move, said one observer, "seemed to him to be entirely in favour of the retail trade as against the manufacturing trade". In the Bank's view, among the several other objections one only need be quoted, namely that the financial quota was liable to abuse in that it permitted an importer to absorb the bulk of his financial quota in the importation of goods which showed the best margin of profit and which frequently were not goods of an essential nature. Foreign exchange so absorbed would be at the expense of supply of more important classes of goods for which eventually it would be necessary to find further foreign exchange.

In the first week in October 1940 the Department of Trade and Customs obtained approval for restrictions of £1,545,000 sterling;¹ in January 1941 of £1,222,000 sterling;² which brought the paper restriction on non-sterling exchange to approximately £10,000,000 sterling, in civil requirements, based upon 1938-39 figures. At this point import licensing had been in force for twelve months and the Minister for Trade and Customs, quoting this figure to the Cabinet, contended that:

Increased prices overseas, higher freight rates, war risk insurance, would so increase the cost of landing goods at the present time that the figure of £10,000,000 sterling would be closer to £13,000,000 or £14,000,000 sterling on present landing costs.

He admitted, however, that only now was there beginning to show any marked effect on imports; that in the first six months a material increase had occurred over the corresponding period of the previous year,³ but that the trend was now definitely downwards. As an indication for the

¹ Full Cabinet Agendum 466, 9 Oct 1940.

² Full Cabinet Agendum 527, 15 Jan 1941.

³ The Commonwealth Bank history puts the non-sterling imports for the first three months of 1940 at £22,600,000 Australian compared with a quarterly average of £14,300,000 Australian in the year 1938-39. Even allowing for such items as special importations of petrol and aeroplanes the effect of licensing was, from the point of view of exchange control, "most disappointing".

future, he concluded, the point had almost been reached where the further restriction of imports from non-sterling sources could only be achieved by the curtailment of imports of many raw materials for consumption goods.

Restrictions on non-sterling imports continued, timed usually at each quarterly licensing period. Such proposals continued to originate in the Department of Trade and Customs, abetted by the Commonwealth Bank,⁴ and examined before going to the Cabinet by the Seaborne Trade Committee. In April 1941 the amount was £1,763,000 sterling⁴ which, according to figures submitted by the Department of Trade and Customs, brought the total intended restrictions to £17,314,000 sterling or 43½ per cent of the aggregate imports from non-sterling countries.⁵ This time they asserted, we have "almost exhausted the list of non-sterling consumption goods",⁶ and the chairman of the Seaborne Trade Committee, writing to the Acting Prime Minister, drew attention to a resolution arising out of views expressed to the committee by the Commonwealth Bank that it is urgent to bring in sterling restrictions previously proposed as a necessary complement to the non-sterling restrictions under consideration at this meeting. Until this has been done it is not possible to extend further restrictions on non-sterling imports.

Exchanges with the United Kingdom Government in August 1940 had revealed their desire, before assenting to sterling import restriction, for assurances

- (a) that the maximum restriction of imports from the non-sterling area should precede the imposition of restriction on goods from the sterling area;
- (b) that Australian import restrictions on goods from the sterling area should not have a protective effect and should not be followed by the establishment of new or expansion of existing Australian industries to manufacture the goods being shut out from the sterling area;
- (c) that the financial trade and general policy of the Commonwealth Government should be directed to the reduction or elimination of consumption of non-essentials from whatever source so that resources might be directed as much as possible to maintenance of the war effort.⁷

By June 1941 important steps toward the desired restrictions included non-sterling restrictions of £9,000,000, the new film agreement,⁸ increased

⁴ Full Cabinet Agendum 527, 7 Apr 1941.

⁶ General restrictions so far	£10,084,000 sterling
Timber	880,000 "
Motor Vehicles (civil requirements)	3,110,000 "
Tobacco	1,477,000 "
	15,551,000 "
Present restriction	1,763,000
	£17,314,000

⁵ Seaborne Trade Committee meeting 2 Apr 1941.

⁶ Full Cabinet Agendum 527, 17 Jun 1941.

⁷ The original agreement was to 28 Feb 1941 and renewal had come up for discussion towards the end of 1940. The dollar position had hardened; there were warnings from the United Kingdom; severe restrictions had meantime been put on non-sterling imports; there was petrol rationing; so renewal on the same basis could not be condoned, especially as the United Kingdom's second agreement had reduced the total amount of remittances to approximately 37 per cent of the pre-war figure.

The new agreement therefore reduced the allowable remittances from US \$3,100,000 to US \$2,300,000 or approximately 37 per cent of the total for the year ended 30 Jun 1939. The new agreement was also for twelve months, expiring on 28 Feb 1942.

petrol and newsprint rationing, as well as tighter Capital Issues restrictions. The matter was set aside for discussion by the Prime Minister when in England.

The decision to be made was not an easy one, and the full Cabinet, considering a draft set of "particular assurances . . . as distinct from a general assurance", rejected them. The value of the total prohibition suggested at the time, the items of which had been agreed to by the British Trade Commissioner, was £4,300,000 sterling; the full Cabinet agreed to the list of goods recommended.⁹

A month later the assurances were resubmitted and the Minister for Trade and Customs pointed out that if the assurances were not given then the Government must

determine in advance what its policy is in relation to the manufacture of goods in Australia which are of a type proposed to be prohibited importation under the sterling plan.

As I see it, it is not sufficient for Cabinet just to determine that no assurance is to be given. Our experience when import prohibitions are brought down is that either the overseas manufacturer who is affected by the prohibition will endeavour to have his goods manufactured in Australia if it is economically possible or alternatively that an Australian manufacturer will try to profit by the prohibition by manufacturing the same goods under royalty payments or even without. In either case the manufacturer engaged in a similar production will extend his own production to meet the increased demand for his product arising out of the import prohibition.

If Cabinet agrees that it is undesirable to encourage establishment of industries or extension of existing industries to manufacture goods prohibited importation under the wartime prohibitions, then positive action has to be taken in informing all interested departments to take the steps necessary to ensure that new industries are not set up and that material extensions to existing plants are not authorised.¹

A decision was deferred until a time when more ministers should be present. The item was not reintroduced until the beginning of September by which time the minister was to "have the submission recast, brought up to date and resubmitted".²

The argument that sterling restrictions could not begin until non-sterling goods had been adequately tackled was disappearing. In June a further list restricted non-sterling imports by £1,281,000 sterling.³ The earlier fear that the United Kingdom would reply to restrictions on sterling goods by reducing the purchase of Australian goods was laid by assurances that "the United Kingdom's reduced purchase of our foodstuffs is principally related to the shipping problem and it is evident that these two questions are entirely unrelated".⁴ A further argument—the need to safeguard London funds, especially in the light of reduced proceeds from exports—did not receive so much emphasis. So far back as June 1940 the Financial and

⁹ Full Cabinet Agendum 699, 16 Jul 1941, begins "Cabinet recently agreed to a list of goods which the Seaborne Trade Committee had recommended should be restricted importation into Australia from the sterling area."

¹ Full Cabinet Agendum 699, 16 Jul 1941.

² Full Cabinet Agendum 699, 5 Sep 1941.

³ Full Cabinet Agendum 527, 23-24 Jun 1941.

⁴ Full Cabinet Agendum 527, 17 Jun 1941.

Economic Committee had expressed the view that a much lower figure of London funds than that for peacetime could be contemplated "with the controls now operating" and that no question of safety of sterling reserves should be allowed "to hamper any possible effort we can make in the common cause". The opinion of the committee, meeting in July 1941, was that "although the range of possibilities was great, it appeared likely that our London funds would at least be maintained during the year". Lend-Lease was also a factor (if an incalculable one) in estimating future figures of London funds.

The chief problem was that the United Kingdom and the Commonwealth Government should agree on goods to be restricted and on the measures to be taken incidentally to prevent the restrictions imposed from resulting in an unwarranted expansion of Australian industry. These deliberations were not resolved until 8th December when import licensing procedure was extended to cover a wide range of goods of sterling origin.

In point of fact the licensing of at least one type of import from sterling sources (machinery) was requested by the United Kingdom itself chiefly because such labour and plant were specially valuable to the United Kingdom; demands on them were increasing while the country was faced with shortages of labour in engineering trades; moreover growing pressure on supplies of steel made the United Kingdom eager for Empire governments to impose a strict import control and so enable the United Kingdom to concentrate its resources where really needed without fear of using unnecessary dollar exchange.

THE MACHINERY OF OVERSEA PROCUREMENT

Import restrictions were concerned chiefly, as might be expected, with consumer goods destined for the civilian. But it was part of the lesson of 1940, painfully learned, that the line between civilian and defence goods was increasingly difficult to define, especially when, putting aside consumer goods as such, the import licensing authorities had to deal with raw materials for manufacture, raw materials which could be used as much for defence as for civilian non-essentials. Up to the end of 1940 and during 1941 supplies for most items were obtained through the usual commercial channels as to ordering, receipt and delivery, within the scope, of course, of the import licensing in Australia and such export controls as were instituted overseas.

Items which were unreservedly for defence purposes—warlike equipment, and the raw materials for munitions—were automatically eligible for import; and to aid manufacturers who sought essential goods—raw or manufactured—either wanted for defence contracts, or likely to be in short supply, the Australian Supply Department sponsored applications for import licences, providing priority certificates which would support orders through the Ministry of Supply, London, via the High Commissioner's office, for the purpose of obtaining the release of the goods and the required priority of delivery.

Early action was taken, also, to establish association with an official purchasing agency in North America, the British Government Purchasing Commission, and orders were directed through this channel. There already existed an Australian Trade Commissioner,⁵ and in January 1940 an Australian Minister to the United States was appointed.⁶ To begin with, however, these overseas centres were quite inadequately staffed, and when the Prime Minister returned from England in 1941 he reported on the fact, and steps were taken to increase and organise staffs in an Australian section of the British Purchasing Commission and in the United States and also to establish a technical division in the High Commissioner's Office. Much was demanded of these Australian representatives overseas; and from the beginning their efforts were helped—or hindered—by the despatch of persons or parties bent on speeding up the procurement or delivery of particular items. This practice of the special "personal" trip to speed up matters was increasingly used once the new munitions organisation took shape; and more especially when the introduction of Lend-Lease had meant the introduction of complex factors. There were also liaison arrangements between the Services and their officers overseas. Visiting parliamentarians were charged with special missions connected with supply as part of their more general objectives.

The trend of purchasing policy was towards concentration of all orders through one agency, sometimes for reasons of lower cost but almost invariably because to do so meant a transaction as between governments or government departments, and for overseas procurement this was soon to mean the most likely method of securing delivery. The Cabinet early disapproved departure from this policy and on one occasion expressed "grave disapproval" of the fact that negotiations for the purchase of Lockheed aircraft had taken place through the Australian agents of the corporation "in view of the fact that the Commonwealth has a representative in the United States who is supposed to attend to all its purchases in that country". Future purchases were to be negotiated by the Aircraft Production Commission.⁷ In May 1941 commitment was accepted for the despatch to the R.A.F. of 1,000 fitters as a result of arrangements between the Air Board and the British Air Ministry. The Cabinet noted with disapproval continued exchange of messages between, for example, service departments and liaison officers in the High Commissioner's Office, London, on "important questions of principle". On routine matters the need for exchange was fully recognised but those affecting government policy must be approved by the minister of the department concerned.

LEND-LEASE

The dollar crisis which culminated in the statement on 23rd November 1940 by Lord Lothian, the British Ambassador in Washington, had had its repercussions in Australia in urgent pleas of the United Kingdom to reduce

⁵ L. R. Macgregor.

⁶ R. G. Casey.

⁷ War Cabinet Minute 242, 17 Apr 1940.

non-sterling imports. Meanwhile the American President's plans were expressed at his press conference of 17th December; on 10th January 1941 the Lend-Lease Bill was introduced into the American legislature and became law on 11th March.

The main object of this Act is to promote the defense of the United States by supplying material aid to those nations whose defense is vital to our defense. Unlike prior methods, it focuses directly on the aid to be rendered rather than upon the dollar sign ultimately to be translated into war material.⁸

In principle, financial settlement, including determination of what values should finally be attached to supplies, was to be deferred until after hostilities ended.

The Australian War Cabinet, alive to the possibilities of these plans, early directed that the Department of the Army should prepare a list of stores etc. which might be obtainable from the United States under the "loan or lease bill" to meet existing deficiencies: After the passing of the Act there was a period of great confusion until a definite procedure and adequate machinery were evolved. As far as Australia was concerned, the period of delay and protracted negotiation lasted until the end of 1941. For political reasons the President was reluctant to establish direct supply to the Dominions; Britain was in danger, but Australia not directly so. Accordingly the procedure involved "Lend-Lease to England and transfer to the dominions" which "even if cumbersome" was a procedure based on shrewd appreciation of American public opinion.⁹

A result was that Australia did not begin to receive substantial supplies until nearly a year after the Act was passed. Cash contracts continued to be placed, first because delays were thus avoided, second because not all goods were eligible for Lend-Lease, and third because the lag in delivery meant that contracts placed before the Act, continued to be fulfilled. In the first year Lend-Lease deliveries were £5,000,000 Australian while cash purchases were £30,000,000 Australian.¹

To begin with, on 27th March, the Australian Trade Commissioner was instructed to enquire into all economic aspects of the Lend-Lease programme. His job, difficult at best, was made doubly so by uncertainty of American procedure which in turn was hampered by the inherent difficulties of Lend-Lease policy—the desire to avoid placing values on items; the vulnerability of Lend-Lease policy to political pressures; and the fact that on many points decisions had to be made personally by the President.

⁸ First report to Congress on the Lend-Lease Act, 11 Jun 1941. Under the Act the President was to report on operations "from time to time but not less frequently than once every ninety days".

⁹ Report by G. W. Paton for the Treasury (unpublished) dated March 1943.

¹ Paton Report, Appendix A, p. 4. The uncertainty intruded into such discussions as the Financial and Economic Committee's estimates of the balance of payments. In the meeting of 25th-26th July 1941 Melville suggested the possibility of some duplication between the figure of imports requiring payment and Lend-Lease imports presented by Coombs.

In War Cabinet Minute 1476, 6 Nov 1941 the Director-General of Munitions told Cabinet that as regards machine tools "... Lend-Lease procedure contributes to the delay in delivery". In War Cabinet Minute 1547, 5 Dec 1941, the Division of Import Procurement drew attention to "order for lubricating oil for R.A.A.F. without prior authority of an import licence and on a cash basis instead of under Lend-Lease". He laid possible blame at the door of oil company representatives employed in the Service.

The Trade Commissioner's work was greatly increased by the need to train officers in Australia in Lend-Lease technique, which was not easy to learn. Moreover the existence of orders from both the government and private firms meant that inevitably requisitions were faulty. The Americans placed increasing emphasis on the need to coordinate requisitions, and in July stated that commercial orders from private firms should cease. In any case the growing systems of export licensing and priorities in America rendered it unlikely that goods could be secured through commercial channels. Accordingly the decision was taken in July 1941, although not implemented until September, to set up a Division of Import Procurement within the Department of Trade and Customs. At the same time representation in America was reorganised by the creation of an Australian Supply Council.²

In general trade relations the period was one of notable activity. The Prime Minister had talked with the President during his oversea tour early in 1941; an invitation for exploratory talks with a view to a trade treaty was issued by the Americans. Sir Earle Page,³ putting the position to the Economic and Industrial Committee of Cabinet, advanced cogent reasons for going out of the way to meet the Americans:

The issues involved go far beyond those of an ordinary trade negotiation. We must do our best to develop the most cordial trade and economic relations with the United States which is about to help us under the Lend-Lease arrangement, and whose goodwill towards and cooperation with us are vital to our present and future interests.

He quoted an illuminating piece from the American letter:

I should like to emphasise again my concern regarding the basically unsatisfactory state of commercial relations between the United States and Australia and my conviction that the present uniquely favourable conditions for rectifying the situation should not be allowed to pass without the most serious efforts being made to reach an understanding. It would have been most unfortunate if the acrimony engendered by the state of virtual "trade war" between our countries during 1936 and 1937 had not subsided prior to the outbreak of the present war.

The reference was, of course, to the Australian "trade diversion" policy of those years. As yet there was no indication of the proposals the United States would make, and in any case the Australian Cabinet was alive to the possibilities of having to surrender advantages elsewhere, for example in the United Kingdom, and of the possible repercussions on tariff arrangements with other Empire countries. However there were other matters to take into account: the United Kingdom shipping representatives were in the United States and the possibility of United Kingdom and American shipping being virtually pooled, by the substitution of American ships for

² It consisted of the Australian Minister to Washington (Casey), the Australian Trade Commissioner (Macgregor) and the Australian representative on the British Purchasing Commission (F. B. Clapp). Previously Commonwealth Government purchases had been made principally through Macgregor who was responsible for the financial and administrative side, and Clapp who dealt with the technical and procurement side. (Paton Report, p. 6.)

³ Rt Hon Sir Earle Page, GCMG, CH. (1st AIF: Capt AAMC.) MHR since 1919. Treasurer 1923-29; Min for Commerce 1934-39, 1940-41; Health 1937-39; Prime Minister 1939; Min for Health since 1949. B. Grafton, NSW, 8 Aug 1880.

British ships in the Pacific and Indian Oceans, was forecast. The International Wheat Advisory Committee was to meet in Washington and "might be regarded as a test case of the prospects of international collaboration on the surplus problem as a whole".

So late as November 1941 Australia found it difficult to obtain satisfactory Lend-Lease allocations. Items in suspense were paper pulp, lubricating oil, motor trucks, tinplate, steel sheets, and the balance of tobacco and cotton requisitions. In April claims for supplies under Lend-Lease had amounted to £28,000,000 Australian (£18,000,000 for defence; £10,000,000 for essential civil requirements). By 31st August the value of goods declared eligible by the United States had reached \$54,000,000 but the first substantial receipt in Australia was not until November 1941 (£500,000 Australian); and in December £2,500,000 Australian.⁴

The problem of civilian supplies procured under Lend-Lease was a difficult one from the start and remained so. Lend-Lease applied only between governments and orders from private firms, however necessary to the war effort, could not qualify as being eligible. To begin with, for instance, tinplate for domestic requirements was not eligible. It was clearly important for the government to undertake the procurement of these vital supplies, if by that means dollars could be saved. Although policy was still changing, there were signs that America was willing to supply necessary civilian supplies under Lend-Lease, but these could be procured only by a requisition from the Australian Government. This important point of general policy justified, as it continued to strengthen, the Division of Import Procurement, which became the central Commonwealth agency, charged with the procurement and coordination of Lend-Lease orders. Service departments, though they might requisition direct, gave the division notice of intention to indent, so that there might be cooperation and any necessary consolidation of orders. Indeed it soon became evident that a similar consolidation of procurement must exist for the produce of countries other than America.

MUNITIONS, SHIPBUILDING AND AIRCRAFT PRODUCTION

The Lend-Lease arrangements were of importance to the Australian munitions production programme; the Department of Munitions was "dependent to a large extent on specialised equipment and materials available only from the United States of America" through these arrangements. "Although well represented in the United States," says a contemporary document, "the department's requirements are subject to priorities determined by the United States authorities through the British Purchasing Mission, and to procedures which at present are somewhat hampering to its programme."⁵

⁴ Paton Report, Appendix A, p. 6.

Reciprocal arrangements—which figured considerably in the Australian Lend-Lease story later—were suggested for at least one transaction by October 1941: the proposed supply by Australia of munitions to China for which the United States would give credit under Lend-Lease arrangements. (War Cabinet Minutes 1327, 3 Sep 1941; 1419, 22 Oct 1941.) Deliveries were suggested for Jan, Feb and Mar 1942 but there is no record of their going.

⁵ Munitions Digest, Aug 1941, p. 7.

L. R. Macgregor, now Australian Lend-Lease representative in America, thought (Paton

The development programme had risen to £48,000,000⁶—six times the figure of 31st May 1940—and now included £4,000,000 for the Eastern Group Supply Council's needs and £4,500,000 for a shipbuilding programme.⁷ The department was given a separate minister and a separate administrative head in June 1941,⁸ at the same time shedding its responsibilities for aircraft production which became a separate ministry. The approximate amounts involved in orders on hand and forecast exceeded £180,000,000. Oversea orders, of which about one-third had been shipped, were valued at over £15,000,000.⁹

At least three obsolescent items of Australian requirements were not now included in the production programme, although they could, if necessary, be manufactured with the plant for the 25-pounder ammunition.¹ But there were other items, also omitted as yet from the production schedules, which were significant for the future of the programme. A new sub-machine-gun—the Owen, entirely designed by an Australian—was being undertaken by one of the industrial annexes;² tooling up for the more powerful 6-pounder anti-tank gun was to take place concurrently with existing 2-pounder anti-tank production;³ the manufacture of the 40 mm anti-aircraft (the Bofors) gun, for defence against dive-bombing, was being prepared; and at the end of September 1941 the War Cabinet

Report, Appendix A, p. 4) "that a fundamental mistake was made in Australia not attaching, as a condition of our adherence to the principle of conjoint buying, the provision of adequate representation of Australia on the controlling commission of Allied purchasing" (i.e. when a so-called Australian Division of the British Purchasing Commission was set up). Paton continues "... it seems almost absurd that the burden of representing Australia's interests should have been placed upon the Australian Minister at Washington who was already over-busy, and on a Trade Commissioner with many other duties. The inevitable result was rigorous English control of the whole situation."

⁶ The Capital Expenditure authorised by Government for Development of Munitions Production in Australia may be set out in grants approximately as follows:—

	£
Pre-war period (complementary with Imperial Conference 1937)—1937-41	
Programme	3,000,000
First 9 months of war—September 1939 to May 1940	4,583,012
Grants to Department of Munitions 1st June 1940 to 31st August 1941	35,846,248
	43,429,260
Contribution towards cost of acquiring Reserve stocks of Materials	4,550,000
	<u>£47,979,260</u>

Source: Munitions Digest, Aug 1941.

⁷ For the first stage of the shipbuilding programme the Government had allocated £6,000,000. Expenditure for 1941-42 was estimated at £4,500,000.

⁸ Senator G. McLeay became Minister for Supply and Development and A. V. Smith secretary of that department; Senator P. A. McBride remained Minister for Munitions and J. B. Bridgen secretary of that department. Bridgen was succeeded by J. K. Jensen in 1942.

⁹ The major items were: United Kingdom (including orders for Egypt) £9,014,000, New Zealand £1,868,000, India £2,951,000, Malaya £891,000, Netherlands East Indies £640,000 (Munitions Digest, Aug 1941).

¹ They were: 18-pounder h.e., 4.5 h.e. and 4.5 smoke cartridges. Orders for these which were accepted from the United Kingdom were, it was thought, for interim use pending large-scale production of the 25-pounder gun.

Another item to which, for strategic reasons, the War Cabinet at the time hesitated to divert labour and materials from war production of "high order of priority" was the provision of respirators for the civilian population. The probability of gas attack was remote and the United Kingdom was to be asked if they could supply 1,000,000 complete or 1,000,000 containers. The Minister for Munitions was to examine and report on possible local production and to "give indication of how other war production is likely to be affected by local manufacture". (War Cabinet Minute 1329, 3 Sep 1941.)

² Considerable publicity surrounded the manufacture of this gun. For a full story see D. P. Mellor, *The Role of Science and Industry*, in this series.

³ The Director General's report to War Cabinet for September 1941 spoke of May 1942 as a target date.

asked that the possibilities of local production of torpedoes should be investigated.⁴

Time was passing, and for certain older items the production plans begun over twelve months before were beginning to mature in such satisfactory figures as those for .303 small arms ammunition, the weekly production average for which was now four times as much as in June 1940;⁵ for 3.7-inch anti-aircraft guns now three times as much.⁶ Indeed all items showed varying but quite remarkable increases in production. Nevertheless there were unsatisfactory features which still persisted.⁷ Weekly production of 25-pounder guns had gone from nil to 2 by August 1941, but the carriages continued to lag, partly because of initial delay in getting drawings, so that by the end of August the totals were 38 guns against 6 carriages and 51 trailers. Rifles, though the weekly average of the new No. 1 Mark III was 1,250 against 315 in June 1940, were behind total requirements, according to the army, and impressment of civilians' rifles was approved.⁸ Explosives production had still to catch up with demand.⁹

The tank programme continued to make less progress than had been predicted for the money and materials being diverted to it. At the beginning of June the army had emphasised the importance of a "highly specialised person" to give undivided attention to the supervision of tank production, and following a further conference, an Armoured Fighting

⁴ War Cabinet Minute 1139, 10 Jun 1941, explored the possibility of employing a proportion of the Australian Beauforts as torpedo bombers, but pointed out that the torpedoes would have to be obtained from abroad in the first instance. War Cabinet Minute 1384, 26 Sep 1941, approved placing an order for 360 torpedoes and 360 warheads with the Air Ministry, but because the United Kingdom supply was uncertain the possibility of transferring the order to Lend-Lease was to be investigated; at the same time a directive about investigation of local production was issued.

For the story of Australian production see D. P. Mellor, *The Role of Science and Industry*, in this series.

⁵ These and later figures are from Munitions Digest, Aug 1941, Appendix III and IV.

⁶ The loss of equipment in Greece had consequences at home where, on 28 Apr 1941 (War Cabinet Minute 969) only 30 3-inch or 3.7-inch guns were held. Of the 12 a month the War Cabinet decided that 8 should go to local defence and 4 to the United Kingdom, which had hitherto received 2. A request to supply three equipments to China was refused. The predictors for the guns were still the problem—the United Kingdom promising only two a month.

War Cabinet Minute 982 accepted that one predictor to four guns would suffice. There were, according to this Agendum (140/1941) 44 guns available and 12 predictors. With local army requirements being met from production at eight a month and predictors from the United Kingdom the position might "therefore be regarded as satisfactory".

⁷ It was unfortunate that estimates of production, even so late as 1 May 1941 (Director of Ordnance Production to Advisory War Council, Minute 312) should prove to be hopelessly astray. An estimate of 200 2-pounder anti-tank guns by the end of July was matched by an actual total of 13 to 28 May (War Cabinet Minute 1266, 23 Jul 1941).

⁸ War Cabinet Minute 1288, 23 Jul 1941, which decided there could be no variation in the present allotment of one-sixth of Australian output to New Zealand, also decided there could be no deliveries of either rifles or .455 revolver ammunition, although the position was to be reviewed in September. In view of the shortage of rifles the prospect of obtaining supplies from the United States under Lend-Lease was to be explored.

War Cabinet Minute 1317, 15 Aug 1941, discussed a deficiency of 70,000 to 80,000 for home defence purposes; urgent requirements from the Middle East for an additional 6,000; recurring commitment of approximately 4,500 monthly for the A.I.F. Local production was quoted as approximately 5,200 per month. War Cabinet approved the army recommendation to resort to impressment at an estimated cost of £120,000.

A strike at Lithgow which, it was estimated, was responsible for a 75 per cent reduction during its currency, was mentioned by the Chief of Staff on 5 Aug 1941 (War Cabinet Minute 1293) as "illustrating the serious effect of industrial disturbances on our munitions production". At the same meeting the adverse effect of lack of equipment was instanced as a reason for poor recruiting figures.

According to Chiefs of Staff reports, considered by War Cabinet on 4 Dec, there were army deficiencies in rifles, Bren guns, 2-pounder and anti-tank ammunition.

⁹ There was still a "substantial surplus" of empty 3-inch mortar bombs which the War Cabinet now said could "go to the United Kingdom at the rate of 24,000 monthly". The arrangement was to be reviewed in September (War Cabinet Minute 1200, 11 Jul 1941).

Vehicles Division was established within the Directorate of Ordnance Production in August.¹ (Carriers naturally became its responsibility also.)

Difficulties appeared concerning the new light tank, the A.C.2. The army was not satisfied with the weight of the front armour, indeed it was never happy about the proposal and adhered to its preference for the A.C.1. To increase the armour meant increasing the weight of the tank, and this in turn prompted queries about whether the intended gear box, final drive and power unit would be adequate. Bringing the weight up meant, too, that the new proposal could be less readily justified vis-à-vis the earlier 22-ton A.C.1. Moreover, on the return of their representative to America, the division learned that initial assertions about delivery of components for the A.C.2. were much astray. There were other and varying points of discussion, but the ultimate decision came on 29th September 1941 when the Minister for the Army directed: "The A.C.2. tank is not to be proceeded with but the A.C.1. tank is to be immediately taken in hand as a *project of first priority* so far as army equipment is concerned. . . ."

As the result of this decision substantial orders for A.C.2. parts and components, placed in America, had to be cancelled and further equipment acquired. The director hastened to the United States but the heavy local demands there meant that he did not secure completely suitable equipment, and what he did secure was second-hand and "in some instances considerably out of date and in marked need of re-conditioning".

Meantime work on the A.C.1 had been proceeding. A notable achievement was the casting of the hull in October 1941. Temporary rubber tracks were evolved until steel casting capacity could be arranged. In September the possible use of single-row Wasp aircraft engines was proposed.² Ball bearings were likely to be a problem.³

Frequent changes in design were inevitable in the light of changing conditions of warfare; reports from both division and army representatives implied that no firm opinions about tank design existed among more experienced manufacturers. Nevertheless such changes necessarily hampered production, and a decision of 10th October that "the first batch of sixty-five tanks" should be "in accordance with the design as agreed upon at completion of the pilot model trials" was therefore of some

¹ War Cabinet Minutes 1116, 4 Jun 1941; 1169, 4 Jul 1941. The Director was A. R. Code, and Colonel W. D. Watson, the British expert on loan to the Army Design Directorate since 1940, became its Director of Design. In the early months of the tank project there had been some dissatisfaction with the state of the army's design section, but this improved—from the point of view of the Department of Munitions—after the arrival of Watson. Nevertheless there continued to be some friction about the separation of design and of production. The new arrangement sought to remedy this alleged defect.

² Subsequently (War Cabinet Minute 1503, 17 Nov 1941) the possibility of using twin-row Wasp engines was canvassed.

³ The control of ball and roller bearings was undertaken by the Directorate of Machine Tools and Gauges on 15 Jul 1941. Supplies had been obtained principally from England and America, and also from Sweden. A press announcement by the Minister for Munitions on 28th July was "designed to induce some one to undertake the manufacture of bearings in Australia". A number of replies were received, but because of difficulties over plant, and difficulties confronting any one of the overseas firms who might be interested, it was "suggested that for the time being thoughts of a plant for the manufacture of the balls be dropped, but that consideration be given to inducing one of the larger firms—preferably British—to establish a small plant here for the purpose of making the races and cages only, and using imported steel balls". (Report of Director-General to War Cabinet, No. 13, Sep 1941, p. 22.)

importance. For this number, at least, there would be no alteration to design.

The first model—an experimental one—was completed in January 1942. By August 1941 five annexes in New South Wales (three for castings and one each for axle drives and gear boxes) had accounted for an authorised expenditure of £256,450.⁴

The placing of orders for eight merchant ships between June and October 1941 did not mean that keels were laid for eight immediately. To begin with the newly created Shipbuilding Board had surveyed the facilities available, and although their general conclusions

- (a) that the shipbuilding effort was gaining and would continue to gain momentum;
- (b) that with the exception of Cockatoo and Whyalla existing yards were more suitable for the building of small ships;
- (c) provided facilities were increased the building of merchant ships concurrently with small naval vessels was practicable;
- (d) good progress would call for the maximum utilisation of all existing facilities

more or less confirmed those which had been reached by earlier inquirers: considerable extensions and additions to plant were involved before the existing yards might undertake the programme. Moreover, if building was not to be delayed, certain preliminary work—grading of selected sites, and, if necessary, piling of the ground to enable it to withstand without yielding the weight which would be imposed upon it, provision of cranes and derricks, provision of electricity, provision of compressed air for pneumatic tools, manufacture of additional tools—must begin forthwith. The proprietors looked to the Government to provide the necessary finance for the provision of this capacity, but as each shipbuilding yard had its own particular problems in regard to finance and expansion it was necessary for the board to conduct negotiations with them on separate lines, since it was not possible to adopt a procedure which could be common to all. Financial assistance to contractors, with the exception of a relatively small amount by way of special grant, was by advances made on the basis of long term repayments carrying normal interest rates on outstanding balances.⁵ A further decision had to be reached concerning payment for construction of ships, and in this respect contractors were reimbursed in accordance with the standard munitions conditions for cost-plus contracts, but in addition a fixed sum for each vessel was paid contractors as a

⁴ This was in addition to the site at Fishermen's Bend, mentioned earlier, which was set at £83,000. The resources of the New South Wales Railways workshops were also recruited.

⁵ The Munitions Digest, Aug 1941, recorded financial assistance to four firms totalling £825,000.

Earlier discussion on "principles to be followed in capital assistance by the Government to private companies" had revealed that the Director-General "favoured participation by the Government on a shareholding basis in proportion to the amount of capital subscribed. Companies to be liquidated at the end of the war by realisation of total assets and not only by the Government's share as in England after the last war". (War Cabinet Minute 410, 10 Jul 1940.)

War Cabinet Minute 1064, 9 May 1941, approved the transfer of the powers of the earlier Australian Commonwealth Shipping Board (Acts Nos 3 of 1923 and 73 of 1933) regarding Cockatoo Island Dockyard to the new Shipbuilding Board, and, logically, from the Department of the Interior to the Department of Munitions.

profit or management fee over and above the ascertained cost of production.⁶

Negotiations for plans for a vessel⁷ of the *Scottish Monarch* type were reviewed by the new board, more particularly in the light of what, after consideration by local experts, was considered the best size and speed for a standard vessel for Australian building. Such practical considerations as the previous experience of the yards, the lighter type of work for which most plant in Australia had been installed, the inadequate supply of skilled labour, and the need for rapid construction, suggested a vessel of 8,000 tons rather than 10,000 tons deadweight which was advocated by some. Questions of speed which had been raised with the Caledon Company in June 1940 were raised again, more especially since a statement by the Australian oversea shipping representative⁸ had indicated that since the vessels would probably have to carry refrigerated cargo their speed should not be less than twelve knots. With modifications, then, the first "A" class vessels (the "river" class since they were named after Australian rivers) were put in hand. Keels were laid at Cockatoo Island, Mort's Dockyard and at Evans Deakin in July, and at the Melbourne Harbour Trust (Williamstown Dockyard) and Evans Deakin in December, making five vessels under construction by the end of 1941. At Whyalla where the greatest potential existed, a ship for the board's programme was not to begin until 1942 although a vessel was ordered from Broken Hill Proprietary Limited in October 1941, making the total on order nine.⁹ At those yards where keels had been laid work progressed steadily enough, having regard to the naval work also being undertaken. At Mort's Dock however "very little progress" was made because there were unforeseen difficulties with construction of the slipway; there was the usual manpower shortage; there were the demands of naval work; but as well the company showed reluctance to sub-contract the fabrication of steel. As events turned out the ship at this yard was not to be completed but to be transferred to another yard and the order for the second cancelled—as much because the fortunes of war demanded greater emphasis on repair and naval work as because progress was slow.

Naval building in 1941 had involved further orders: for eighteen corvettes.¹⁰ This, with the merchant shipbuilding programme, was expected

⁶ £25,000 in the case of Mort's Dock & Engineering, Evans Deakin and the Melbourne Harbour Trust. Cost of production and fee in the case of Cockatoo Docks & Engineering Co. Pty Ltd was to be determined "in accordance with the 'War Time Agreement' between the Company and the Department of the Navy to which 'Agreement'" the Shipbuilding Board was also to be a party. (Director-General's Report No. 12, June 1941, p. 50.)

⁷ From the Caledon Company.

⁸ E. McCarthy, Assistant Secretary, Department of Commerce.

⁹ Five berths were available at Whyalla, but labour was a limiting factor. The company laid the keels of their two "Chieftain" type vessels on 30 Jun 1941 and 1 Aug 1941, to be built at the company's expense for its own purposes. They were told, however, that the vessels would be "regarded as included in the Australian shipbuilding programme and would receive priority accordingly". (Director-General's Report, May 1941, p. 60; Munitions Digest, August 1941, pp. 78 and 81.)

¹⁰ The records give the early naval construction the title "corvette"; later the term "minesweeper" appears. The titles appear to have been inter-changeable—both types having the same duties. The earlier vessels were heavier, 733 tons, while the later (and majority) of the vessels were 650 tons.

In May (War Cabinet Minute 1080, 15th) a request from India for a further six anti-submarine vessels had had to be refused because of "our own shortage of anti-submarine vessels and the

to "absorb the shipbuilding facilities available in Australia until the end of 1942", and one result was that it was not possible to "undertake any further construction for the Royal Indian Navy or the Admiralty". In this, as in other sections, a limit to expanded effort of which the country was capable was appearing.

While the capacity for hull construction, which has been discussed, proved comparatively easy to arrange, that for marine engines, without which the whole programme would be upset, was not. Basing their estimates on the most optimistic figures for the shipbuilding programme—twelve to fifteen 9,000 ton merchant ships, and about the same number of naval corvettes a year—the necessary production of large marine engines would be approximately forty. The engines required were large, but not, in fact, larger than some which the earlier Australian shipbuilding venture had produced; that earlier capacity, however, had been allowed to disappear, leaving a nucleus only, at Mort's Dock and at Cockatoo Island. Quite apart from the preoccupation of these centres with naval work, it was clear that the new demands could not be met from existing capacity.¹ Indeed, even when extension of existing capacity was taken into account it was estimated that only about one-half the requirements for the shipbuilding programme could be met.²

The decision was accordingly made in June 1941 to establish two marine engine annexes, and these were erected, in due course, on land acquired by the Commonwealth and remaining its property. Since two marine engine shops already existed in Sydney—at Cockatoo Island and Mort's Dockyard—the annexes were established one at Brisbane and one at Melbourne.³

The estimated expenditure was in the vicinity of £250,000 each, with a planned capacity of six engines a year each, and the Director-General of Munitions approved the ordering of heavy machine tools from the United Kingdom to equip the annexes.

A report on the venture was before the War Cabinet in September and the Treasury commented:

That it will be eighteen months to two years before the present capacity (thirteen a year) can be expanded to the level of forty engines a year which are required for the eight merchant ships and six corvettes which are to be built each year. There appears therefore to be real danger that completed hulls may be lying idle for long periods without engines.

capacity needed to build additional vessels for the R.A.N.". Moreover in June 1941 (War Cabinet Minute 1113) the Chief of the Naval Staff's report had recorded that the naval shipbuilding programme was falling behind the schedule laid down; discussions were taking place with the Director-General of Munitions about measures necessary to overcome the lag.

¹ Engines for *Ferndale* and *Fordsdale* 12,500-ton d.w. ships built in the 'twenties had been made in Australia; as were engines for the cruiser *Adelaide* and the seaplane carrier *Albatross*. Engines for the corvettes of the naval shipbuilding programme were being built locally.

² At Cockatoo Island, Sydney; at Walker's Limited, Maryborough; and at Thompson's, Castlemaine. Additional capacity was to be provided at Mort's Dock, Sydney, and it was hoped that Broken Hill Proprietary could help with one engine a year from their Newcastle works. Charles Ruwolt and Clyde Engineering, who might have been able to assist, were too fully occupied with plant maintenance and munitions work.

³ Evans Deakin & Co. were to manage the Brisbane venture; that in Melbourne was to be under the management of the board (Director-General of Munitions Report, Aug 1941, p. 66). The land in Brisbane was acquired promptly and the works did actually function in 1941; there was strong opposition to the proposed Melbourne site and an area at Port Melbourne was finally acquired in Dec 1941; contract for the buildings was placed in Feb 1942.

That the shipbuilding programme and marine engines in particular must be considered in relation to the following as regards practicability of achieving production

(a) present munitions programme

(b) tank programme

(c) expansion of aircraft production (particularly Beaufighters and Wright Cyclone engines).⁴

The Director of Shipbuilding had assured the Minister for Munitions, however, that hulls and engines would be synchronised, and had directed that contracts for hulls were not to be let until engines were assured.⁵

There was no question of turning back. The Government was committed to shipbuilding; the Prime Minister's statement to the War Cabinet on discussions in the United Kingdom had been unequivocal:

I have detected a desire on the part of outside experts serving at the Admiralty to keep our activities confined to naval craft so as not to build up competitive yards for other vessels in the post-war period. It was pointed out to the First Lord, and he agreed, that the gravity of the shipping situation overrode any such views. I can only suggest that in the meantime we should vigorously press on with the programme contemplated. In view of the prospect of meagre shipping space for exports, merchant ship construction would appear to be an essential corollary both from the practical and political angles.⁶

The secession to a new, and separate, minister in July 1941 confirmed the importance, as much as the growth in size, of aircraft production; but as in most administrative changes the problems continued to be those of the commission which the new department replaced;⁷ nor were very different methods adopted to cope with those problems; they merely received the extra attention which a separate minister and separate department could afford. And, by the same token, the new department could inherit such results of the earlier administrative arrangements as might be coming forward. Among these were, in August the delivery of the first production Beaufort, and in November the successful testing of the first twin-row Wasp engine from the Lidcombe factory.

But delays in production continued to receive comment in the War Cabinet, and various reasons were either advanced specifically, or canvassed generally to account for them. In May it was pointed out that in view of damage to aircraft occurring then more frequently than was estimated, and of the shortage of propeller blades, it was necessary to divert potential capacity to the production of spares and that the production schedule therefore would be less favourable. Total of Wirraways to January 1942 was to be 608 and the Minister for Air said it was possible actual production would be about 60 less. In fact the total to 31st December 1941 was 491. In July when the delivery of Wirraways had

⁴ War Cabinet Minute 1376, 17 Sep 1941 (Agendum 293/1941).

⁵ The Chief of the Naval Staff's report to War Cabinet (Agendum 314/1941) had stated that of the fourteen naval vessels launched and completing, five were held up awaiting engines.

⁶ War Cabinet Minute 1065, 9 May 1941.

⁷ For the time being the constitution of the commission and the details of the organisation were retained, although known as the Department of Aircraft Production. The commission was to be abolished not very much later by National Security (Aircraft Production) Regulations, Statutory Rules 1942, No. 4, 2 Jan.

fallen to two a week for the previous fortnight the reason advanced was "a new alloy for engine cylinders which had been adopted on advice from America, but was not successful".⁸ The use of molybdenum had been resumed and cylinders were "now coming forward". In August when the same reason was given for lag in production the War Cabinet directed "that while satisfactory results are being obtained such changes in manufacture should not be undertaken if they involve the risk of interruption to the flow of output".⁹

But these were less fundamental reasons for the unsatisfactory state of aircraft production than the "non-delivery of machine tools and equipment"¹ and the obvious and disturbing signs of conflict between the two main authorities engaged in production—Commonwealth Aircraft Corporation and the Beaufort Division—beginnings of which have already been seen. These disturbed conditions interfered with prompt decisions in the Cabinet as well as jeopardising the production which was so urgently sought.

An agendum on the organisation for the higher direction of aircraft production had been before the War Cabinet at the beginning of September, but the Minister wanted to look again at "certain aspects" of the proposal and was to bring the matter up for discussion by the full Cabinet. For the time being, however, in the political field the Government was to have much to engage it, and not until the parliamentary upset had been settled were problems of aircraft production again considered. When they were, the occasion was the presentation of monthly reports from the department in November and the results from both Wirraway and Beaufort production came under fire. For the Wirraways the target production to 31st December 1941 had to be reduced from the estimated 564 to 500. The General Manager of Aircraft Construction was confident this production would be attained. The Beaufort schedule was estimated to rise from 4 in November to 16 in April 1942 and then to be at the rate of 20 per month. This was not the figure which had been given to the Advisory War Council, and the Cabinet said so. The reply, that it was "not possible to live up to the early promises because of the non-delivery of machine tools and equipment", that supplies from the United Kingdom had closed down, and those from the United States dwindled, went on to suggest that there should be a common pool of skilled labour and machine tools in Australia upon which the Aircraft Production Commission could draw for the production of Beaufort aircraft; and, moreover, that a considerable number of Commonwealth Aircraft Corporation's skilled men should be diverted to Beaufort production and replaced by diluted labour. Similar principles should apply in relation to machine tools.

⁸ War Cabinet Minute 1234, 22 Jul 1941.

⁹ This conflict in technical matters was part of the general upset at Commonwealth Aircraft Corporation, a report on which was to be made early in 1942 with a view to setting matters right.

¹ Sir Harold Clapp in War Cabinet discussions of September and October; reports of Minister of Aircraft Production, War Cabinet Minute 1478, 6 Nov 1941. Full Cabinet on 8 Aug (Agendum 721) had discussed the production of aircraft and lack of materials to enable the best results to be obtained.

The Cabinet expressed concern at the high expenditure incurred in the Beaufort scheme and the disappointing results obtained. The urgency of the need was emphasised, and the new Prime Minister pointed to a cable sent to the United Kingdom at the beginning of October in which twenty aircraft a month was quoted as the maximum Beaufort production available from the present plant and equipment. "Is this," he asked, "the real measure of our capacity?" Twenty per month could be produced, he was assured, "by the middle of next year subject to the delivery of outstanding machine tools". Earle Page, on a special mission to the United Kingdom for the earlier government, and confirmed in his post by the new, was to be asked to place aircraft production's needs for machine tools before the United Kingdom Government.²

While no comment on the allusions to the Commonwealth Aircraft Corporation was recorded, the Government was not entirely satisfied with the activities of the corporation. The earlier unsatisfactory feature, the "absence of definite costs" for planes, had continued, and at the beginning of September at a War Cabinet meeting the Prime Minister had "directed that a report be obtained on the question of costs and prices of aircraft supplied by the corporation".³ Three weeks later, when claims for reimbursement of developmental charges in connection with the Wirraway and the Wackett trainer were before it, the War Cabinet asked that this report be expedited, at the same time raising again the question of acquiring the corporation. The constitution of the Aircraft Production Commission was also to be discussed. The new Labour Cabinet decided that a further report was to indicate the constituents of cost and financial return to the corporation on Wirraways; and constituents of cost on the first five trainers; these investigations being related to the investigation of developmental charges already directed in September.

Meantime discussions on production programmes and on technical innovations had not been lacking. Early in June 1941 a suggestion affecting the Beauforts had been the reservation of certain numbers as torpedo bombers; this had followed the Prime Minister's visit abroad, and the decision had special significance for the munitions programme inasmuch as the manufacture of torpedoes was to be investigated. At the end of July a cable was to go to the United Kingdom setting out a tentative current and development programme which included the Beaufighter as well as the Beaufort, asking United Kingdom approval, and whether they would take any excess, would cooperate in the release of machine tools, and share the cost of establishing the new facilities, estimated at not more than £5,000,000 Australian.⁴ By the end of September a proposal for

² Reference was made to an article in the *Sydney Morning Herald*, 22 Aug 1941, and other statements as to progress which "give an entirely wrong impression".

³ War Cabinet Minute 1344, 3 Sep 1941.

⁴ The programme was:

Tiger	Moth	.	.	.	50	a month while required
Wirraway	.	.	.	.	24	" " "
Trainer	.	.	.	.	24	" " "

Beaufort and Beaufighter: combined total 48 a month complete with engines; actual total to be

the Wright Cyclone aircraft engine was being deferred for consideration "in conjunction with the general review of the future aircraft production programme which is to be discussed at an early meeting of War Cabinet",⁵ and the technical future of aircraft production was therefore waiting on the more general problems of administration and policy. But at least one new plane got into production without fuss: the D.H. 84 (Dragon), intended as a twin-engined training aircraft for home defence purposes in an endeavour to replace the Anson deliveries from the United Kingdom which had continued to prove unsatisfactory.⁶

Between these discussions and the next—on 18th December 1941—Japan attacked. In Parliament, two days before, the Prime Minister had said

The Government has decided to rank the production of aircraft as a matter of the first degree of priority. If there be production resources which are being used for lesser needs, or which can be better employed, and they are required for aircraft production, any additional powers necessary to divert them will be taken. We intend to expand aircraft production to the maximum that the nation can attain. The administrative machinery for the direction of the aircraft industry to meet this vital situation is being reviewed by the Government.⁷

The chief task involved was the resolution of the conflict within the industry, the state of the relations within which is indicated by the allegation that there had been antagonism by Commonwealth Aircraft Corporation to the Beaufort scheme from the commencement. Without going into the question of where the balance of right and wrong lay, once such relations existed something had to be done about resolving them, and to this end the War Cabinet turned to the arrangement which had produced such notable results in the organisation of munitions production—the appointment of a single man to undertake the "general direction and control of aircraft production"—and to the man most likely to do that successfully, Essington Lewis. The commission was to be abolished and a Coordinating Committee for Aircraft Manufacture established.⁸

Negotiations for the establishment of ingot aluminium in Australia continued. After the decision of June 1941 the Department of Supply recommended that the Broken Hill Proprietary be asked to undertake

decided when views of U.K. known, but numbers contemplated were: 34 Beaufort and 14 Beaufighters—twin-row Wasps for Beaufort and Wright engine for Beaufighter.

The additional manufacturing facilities involved included an engine factory for the Wright and for increasing the twin-row Wasps; increase in Beaufort and Beaufighter airframe capacity; establishment of production capacity for torpedoes, Browning guns and air cannon. (War Cabinet Minute 1242, 22 Jul 1941.)

⁵ War Cabinet Minute 1385, 26 Sep 1941.

⁶ War Cabinet Minute 1344, 3 Sep 1941. The De Havilland Company were to produce the first five in October 1942. The engines would be Gipsy Majors.

⁷ *Commonwealth Debates*, Vol 169, p. 1071, 16 Dec 1941. For the wider implications of this statement in view of Labour's policy about the place of the air force in Australia's defence see P. Hasluck, *The Government and the People 1939-41*, in this series.

⁸ The committee would have a representative each from the Treasury, the R.A.A.F., Commonwealth Aircraft Corporation, the Beaufort scheme, and De Havilland Aircraft Pty Ltd, and a representative of contractors also if necessary. A Director of Aircraft Maintenance was to be appointed.

On general repair policy guiding principles had been approved in August 1941 (War Cabinet Minute 1299) which set out: (i) the R.A.A.F. to create and maintain repair and overhaul capacity for home defence force, (ii) Aircraft Production Commission to undertake same for E.A.T.S. Aircraft Production Commission to be responsible for repair and overhaul of all elementary types for either home defence or E.A.T.S.

MUNITIONS, SHIPBUILDING, AIRCRAFT PRODUCTION 445

PRODUCTION OF AIRCRAFT AND AIRCRAFT ENGINES

Month	Aircraft				Aircraft Engines			
	Wirraway	Wackett Trainer	Beaufort	Tiger Moth	Gipsy Major	Single-row Wasp	Twin-row Wasp	
1939								
Jan						1	1	
Feb						—	1	
Mar						—	1	
Apr						1	2	
May						3	5	
Jun						—	5	
Jul	2	2				3	8	
Aug	4	6				4	12	
Sep	6	12				3	15	
Oct	7	19				7	22	
Nov	6	25				7	29	
Dec	8	33				7	36	
1940								
Jan	5	38				6	42	
Feb	8	46				6	48	
Mar	5	51				8	56	
Apr	6	57				6	62	
May	11	68		1 1		10	72	
Jun	7	75		7 8		4	76	
Jul	8	83		23 31		4	80	
Aug	16	99		26 57		19	99	
Sep	15	114		33 90	2 2	21	120	
Oct	33	147		42 132	20 22	20	140	
Nov	34	181		40 172	28 50	19	159	
Dec	23	204		36 208	34 84	16	175	
1941								
Jan	5	209		38 246	14 98	2	177	
Feb	9	218		41 287	38 136	15	192	
Mar	21	239		45 332	43 179	19	211	
Apr	22	261		41 373	43 222	22	233	
May	19	280	3 3	44 417	47 269	19	252	
Jun	20	300	10 13	44 461	50 319	19	271	
Jul	5	305	7 20	42 503	40 359	2	273	
Aug	26	331	15 35	1 1 45 548	28 387	25	298	
Sep	36	367	21 56	1 2 37 585	43 430	29	327	
Oct	45	412	14 70	3 5 49 634	32 462	24	351	
Nov	37	449	10 80	2 7 41 675	29 491	31	382	1 1
Dec	42	491	20 100	3 10 43 718	30 521	28	410	4 5
1942								
Jan	25	516	24 124	4 14 48 766	4 525	24	434	5 10
Feb	22	538	35 159	6 20 39 805	4 529	25	459	11 21
Mar	29	567	24 183	8 28 42 847	2 531	26	485	20 41

production, details to be arranged between the company, the Prime Minister and the department's own minister. The departmental survey had revealed that there were two organisations with the technical and administrative resources capable of handling the project.⁹ (Production at the rate of 5,000 tons a year was desired and the cost of establishing it was estimated at £1,500,000 exclusive of the cost of electric power facilities.)

It is apparent that in establishing this vital industry the Government must endeavour to find not only a highly efficient company but one which is wholly Australian in its outlook and composition, having useful overseas contacts, but free from entanglements with international organisations. So far as is known the outstanding company in Australia which fulfils these requirements is the Broken Hill Proprietary Company.¹

It is not clear whether this submission was considered by the Cabinet; in any case the Departments of Munitions and of Supply replaced it, six days later, by another which would appear to indicate that the earlier submission over-simplified the state of affairs.

On 7th August a group of three companies, covering Sydney, Melbourne and Queensland, had presented their claims to consideration in the establishment of the desired manufacturing capacity. The new submission recorded this fact and set the "main question" as being "whether the projected private company should be authorised or whether the Commonwealth itself should undertake the production".²

The departments apparently leaned to the view that production under the annexe system under the control of the Director-General of Munitions was the more desirable course. Moreover they reiterated what had been said earlier, inasmuch as Broken Hill Proprietary was named as "out-standing" to fill the role of "a strong parent body both technically and administratively and of undoubted efficiency". But, contrary to the impression left by the earlier submission it appeared that "It is not known whether this Company would undertake the project. It may be decided by the Director-General to call upon the British Aluminium Company for plans and specifications and technical personnel to assist in the setting up of plant under his control". The recommendation, however, was clear:

This extremely difficult matter has been the subject of considerable thought and discussion and we are of the opinion that the proposal as outlined . . . above, that is for production under the annexe system should be adopted.

⁹ Full Cabinet Agendum 671, dated 12 Sep 1941. The two were: Australian Aluminium Company Limited and Broken Hill Proprietary Co. Ltd.

¹ Full Cabinet Agendum 671. The Aluminium Company had "rolling mills and extrusion plant established at Granville, Sydney, to fabricate this metal in the form of various alloys with magnesium, copper etc. The principal alloying material, magnesium, is now being produced at the Broken Hill works at Newcastle". (Magnesium was used, of course, for purposes other than aircraft production, notably in the production of pyrotechnics, and there was no technical reason for the production of magnesium in association with aluminium.) The share composition of the company was given as one-third Australian, one-third British Aluminium Company Limited and one-third Aluminium Limited, Canada.

² Full Cabinet Agendum 749, 18 Sep 1941. This time the submission was from the Departments of Munitions and of Supply jointly.

A copy of the submission went to the Treasury, but beyond that no further Cabinet consideration was recorded until, in November, the new Minister for Munitions brought the subject before the War Cabinet. It is not unlikely that some reflection of his party's professed policy lay behind the statement that

There were and are objections to using the Aluminium Company directly for although the parent American Company has been cleared of the charges made against it, it is desirable that we should be free of the combine.

My predecessor negotiated with various interests over many months but without result.³

The Cabinet was asked to make decisions as to departmental responsibility (as between Supply and Development and Munitions); whether to proceed with plans for a government smelter; what action should be taken for the supply of alumina; and whether the Government accepted financial responsibility (it was suggested that this should not exceed £1,000,000). The new War Cabinet's reaction was to direct, on the eve of Japan's entry into the war, a report on the Department of Munitions' proposals.⁴

Munitions production was not being won easily; nor did the demands upon it remain unchanged—they had already increased from £100,000,000 to £180,000,000. The influence of events beyond Australia after February 1941 should not be overlooked. Although the "scare" while the Prime Minister was in England was discounted, the place of Australia in the A.B.D.A.⁵ conference, and, in the middle of the year, the action to freeze Japanese funds, meant that the chances of war with Japan were much more seriously considered, and that Australia assumed greater responsibilities. The reaction in Australia was to enhance the importance attached to local preparations of which the munitions programme was so vital a part.⁶ Government enthusiasm and generous financial support had been successful in starting the production on its way, but the reasons which were now quoted as hampering that production—lack of manpower, and lack of machine tools and materials—went beyond the needs of the munitions programme alone. That the shortage of manpower in war in-

³ War Cabinet Agendum 20/1941, 5 Nov 1941. The reference to "charges" concerned American anti-trust action.

Supply and Development's submission (Agendum 671, 12 Sep 1941), in discussing the choice of a company had contained a reference to the possible criticism of a "so-called monopoly" and suggested that this might be met by citing efficiency, the urgent need of production, and that the Commonwealth could retain control by providing capital.

⁴ To be made by D. J. Nolan. He was a member of the Accountancy Advisory Panel, and was to become in 1942 chairman of the Allied Supply Standing Committee, the body which provided the executive staff of the Allied Supply Council.

⁵ American, British, Dutch, Australian. See P. Hasluck, *The Government and the People 1939-41*, p. 526 et seq.

⁶ War Cabinet Minute 1004, 30 Apr 1941, approved special deliveries of s.a.a. to the Netherlands East Indies "in view of serious deficiency" there, and to Malaya where Cabinet recorded its "emphasis on importance of s.a.a."

That, when relating figures to physical production, some allowance might need to be made for increased cost of munitions should not be overlooked. War Cabinet Minute 1106, 20 May 1941, for example, provided an additional £365,000 for naval armament and munitions because earlier provision had proved insufficient. Reasons given were:—greatly increased percentage charges imposed by Supply and Development on local manufacture; increase in Admiralty percentage charges from 12 per cent to 22 per cent on naval stores from abroad; increase in cost of materials locally and abroad.

dustry as a whole had gone beyond the early needs for skilled labour for the munitions programme was indicated in War Cabinet discussions in May 1941. It was agreed that "earlier in the war labour problems caused difficulties and that attempts were then made to adjust them as they arose", but now the solutions canvassed took broader forms such as "greater publicity . . . necessary to bring home to the worker the urgent need for his cooperation in the war effort". The acting Prime Minister also stated that "plans were well in hand for special publicity in this direction". The recurrence of "industrial troubles" as a reason for delay should not be overlooked.⁷

That there would be, indeed that there were, shortages of manpower for special purposes, had been seen in the early contentions of the Manpower Committee. But that the total of all manpower might prove inadequate and that that total must be carefully allocated, was a conviction accepted only in the latter part of 1941.

In raw materials a similar allocation was now necessary: supplies from abroad were not only restricted by shipping, they were restricted by the needs of the countries from whom the supplies might have come.⁸ And the answer in Australia could no longer be avoided—whatever was available must be directed only where need was greatest, and only where the fulfilment of that need would be in the best interests of a country waging war.

The sectional difficulties should be seen against this bigger problem, of which, in most instances, they are part or of which they are the outward indications. There was conflict between the two production departments for materials. Referring to the "competing demands of Aircraft Production and the Department of Munitions for the supply of materials" the Minister for Munitions pointed out the need "for an authority to allocate priorities". Since the question also affected the service departments they were included in the conference called by the Prime Minister. Suggestions from departments about the problem were to be reviewed in the first place by the Defence Committee. On 15th October 1941, after the change of government, there was a discussion in the War Cabinet about the division of functions between the Departments of Supply and of Munitions. The Supply Department alleged that there was considerable confusion and overlapping and that the division of functions was not satisfactory; the position should be re-examined with a view to more precise definition of detailed spheres of administration. The relevant ministers were to confer. This conferring was referred to a week later when the Defence Committee submitted that while priorities as to finished products for the Services were satisfactory "it is necessary that there should be some improvement of the existing methods for the determination of questions of the priority of demands for the materials necessary for war production".⁹ They con-

⁷ They had held up commencement of the vital Ballarat gun cotton factory by "six weeks" and the difficulty continued to be the obtaining of necessary numbers of workers to ensure early completion of the building. The Minister for Munitions said men would not work overtime. (Essington Lewis to Advisory War Council, 1 May; War Cabinet Minute 1267, 23 Jul.)

⁸ Particularly the case with machine tools.

⁹ War Cabinet Agendum 310/1941.

sidered the use of existing machinery more desirable than a new organisation, and that control should be with one authority—should continue, in fact, with the materials control section of the Department of Munitions, with liaison officers from the Departments of Supply and of Aircraft Production, and service representatives presenting their views when directly interested. The suggestion was a standing committee of Ministers for Munitions, Supply and Aircraft Production “to deal with large questions of policy such as the allocation of the supply of aluminium and its alloys between Munitions and Aircraft Production”. Such committee “should confer with any other minister whose department was interested in variation of existing policy”. There was conflict between the sections of a department. Twelve corvettes were launched but “awaiting engine production which is lagging behind hull construction owing to the priority being given to munitions manufacture”.¹ The Chief of the Air Staff recorded his alarm at a suggestion that single-row Wasp aircraft engines should be diverted to tank production.² The Minister for Munitions, in stating that the Department of Air was still pressing for supply of the Browning gun although disabilities originally causing them to reject the Bren were now overcome, continued: “In view of the difficulties of obtaining machine tools and skilled personnel it was advisable that new items of equipment, involving a further spread of the munitions programme should not be called for unless they were indispensable.”³

GENERAL SUPPLY PROBLEMS

For aircraft production the “first degree of priority” accorded by the Prime Minister was perhaps its most effective weapon for the future. Once the limitation of resources was established as an indisputable fact, the problem of each section of the community, whether seeking raw materials or manufactured goods, was to establish “priority”. The ensuing story becomes therefore one of changes in emphasis concurrent with changes in priority as directed by higher policy. This had already occurred in a general way when the Prime Minister declared “the sky the limit” for munitions in June 1940. But that declaration was seen at the time only as a need to draw on the country’s resources with no thought that those resources might be inadequate or in need of careful allocation. That other sections might justify priorities was neither recognised nor accepted immediately; nor was the procedure to deal with priorities evolved overnight. To begin with problems were dealt with as they arose, sometimes by a conference between the two Ministers immediately concerned, sometimes at the department level, almost invariably, however, having in mind the particular difficulty and not the problem of “priorities” in its widest form.

The way in which development of defence production had affected the economy indicated that it was not sufficient merely to give a “priority” to enlarge and intensify that section without thought for the rest; blankets

¹ War Cabinet Minute 1173, 9 Jul 1941.

² War Cabinet Minute 1503, 17 Nov 1941.

³ War Cabinet Minute 971, 28 Apr 1941.

were still wanted by civilians and knitting wool by voluntary workers.⁴ Conversely if the war was to be won it was foolish to imagine that the demands of civilians could be allowed either to interfere with or to limit the requirements of the Services or defence production. The time had come, however, when high policy must decide where the balance was to lie; whether civilians must accept less, and if so how much less; whether the Services and defence production could have more and if so how much more.

It is difficult to establish exactly the extent to which the civilian so far had been affected. In only one direction had direct civilian rationing been imposed—petrol. In tobacco and newsprint indirect rationing existed, as well as in certain raw materials controlled by the Munitions and Supply Departments; and, in a variety of consumer goods, shortages arising out of import restrictions and defence demands on raw materials had involved some rationing of an informal kind between supplier and customer, but more often merely direct competition for the goods in short supply, with consequent need to resort to price control to protect the consumer.

In the light of "the gravity of the Australian petrol position" and until there should be some response to "the strongest representations . . . to obtain additional tankage on the Australian service" the policy of strict economy must be pursued.⁵ As part of this policy the Liquid Fuel Control Board was empowered early in July to take a census of petrol stocks.⁶ The objects of the census were to ascertain stocks by individuals and where held; to offset the quantity of petrol held against consumers' licences or quantities to be held on account of possible government requisitioning; and to secure the return of oil drums to build up army stocks.⁷ At the same time the Department of Supply and Development tackled the question of bulk petrol stocks. These—present and forward—were set at:

	Seaboard bulk tanks	Inland tanks	Resellers' tanks	Private holdings	Total
million gallons					
1 Jul 1941	39	13	10	10	72
1 Aug 1941	34	13	10	10	67
1 Sep 1941	48	13	10	10	81

⁴ War Cabinet Minute 1350, 3 Sep 1941, directed the Business Board to follow up "apparent overordering of blankets and other supplies by the E.G.S.C."; and to investigate the "unnecessary" demand on Australian production so that by spreading orders over a period a larger proportion of production could be released for civil requirements.

At the same time the Department of Supply and Development was asked to see that knitting yarn was available for such organisations as the Red Cross.

⁵ The phrases are from War Cabinet Minute 1151, 2 Jul 1941, which considered the army's gloomy predictions about stock at 31 Jul 1941. The Minister for Munitions had said the tanker allocation programme was still unsatisfactory to Australia; that three ships had gone to New Zealand "whose ration was less severe than Australia's, while ample tanker tonnage was apparently available to other Empire countries particularly those in which rationing has not yet been imposed". He reported, however, that an uncontrolled tanker had been obtained to carry aviation spirit from N.E.I. A cablegram was to go to the High Commissioner.

⁶ Economic and Industrial Committee of Cabinet, 14 July 1941, agreed that regulation 15 of the National Security (Liquid Fuel) Regulations be amended to give the board powers to cover the sale, possession, use, custody and movement of liquid fuel and any drums or containers. See Statutory Rules 1941, No. 186, for necessary amendment.

⁷ Order No. 8 under National Security (Liquid Fuel) Regulations, 4 Aug 1941.

The objective was to bring the seaboard tanks to 100,000,000 gallons by the end of December. This required the import of 61,000,000 gallons, and in addition 12,000,000 monthly from the beginning of July, on the current consumption rate which was now at sixty per cent of the pre-war figure. Total requirements were 133,000,000 gallons by the end of December for which there were nine tankers on the run, so that four additional tankers were estimated as the need over the six months period.

The importation involved financial arrangements with the cartel, the members of which were prepared, according to their proposals, to carry at their own cost stocks equivalent to fifty per cent of their seaboard tank capacity (130,000,000 gallons) or 65,000,000 gallons. The Commonwealth was to provide the finance, paying interest at four per cent on the value of stock in excess of this fifty per cent figure, plus an allowance (for leakage, handling and storage) in the form of a rental charge. Relaxation of the present rationing restrictions with a view to reinstating the basis of $33\frac{1}{3}$ per cent (or less if possible) was to be considered when seaboard stocks had been built up to 100,000,000 gallons.

The newly formed Economic and Industrial Committee of Cabinet (or the Economic Cabinet as it might be and was more conveniently called) discussed the control of petrol on 14th July and adopted generally the following proposals:⁸

1. Quotas for importing and stocks to be held to be allotted among the companies and to provide for maintenance of a total stock and total requirements for Government and civil purposes as defined by the Government from time to time.
2. Minister for Supply or such other authority as Government might appoint to be authorised at his absolute discretion to carry out the allotment suggested under 1, bearing in mind the present arrangements under the Cartel.
3. In the event of any company failing to import its quota or to hold its allotted amount as stock, the Minister to have the right to divide up the deficiency among the other companies and further the Minister to have the right to permit companies to import in excess of their quotas as long as the stock in hand was at less than the amount of stock defined in 1 above.
4. The Companies to make a monthly return to the Pool of the amounts imported and the landed cost. The selling price of petrol to be fixed quarterly or at such period as may be decided upon at the average landed cost plus distribution margins as defined by the Prices Commissioner.
5. In the event of the Minister not being satisfied that any company is importing at a reasonable cost, he is to be empowered to cancel the company's licence to import and to allot its quota for the time being to the other companies.
6. The companies to be paid on the basis of their imports and not on the basis of sales. This will encourage the importation of petrol, but at the end of the Pool period consideration would have to be given to the amount of stock of petrol on which the companies had received payments prior to sale. Moreover it would be necessary for the Prices Commissioner in fixing the margin to take account of the fact that payments are made on the basis of imports and this would mean that the companies would get their margins financed at an earlier stage than at present.
7. The scheme would have the advantage of clearing up all the anomalies in the distribution of petrol and it would be possible to give the reseller of petrol

⁸ The committee was part of the Prime Minister's reorganisation, at the end of June, of the higher administrative machinery. See P. Hasluck, *The Government and the People 1399-41*, in this series.

a reasonable and firm or minimum margin. The petrol reseller would not buy from the companies but from the Pool.

8. When the stocks in the country had been built up to the amount defined in 1 above, the present scale of rationing could be relaxed on a plan that can be developed as and when the position arises.

They were against the Commonwealth financing the scheme in its entirety, and named 110,000,000 gallons as the figure of storage for which the scheme should provide.

Discussions continued in the Economic Cabinet meeting on 30th July, and the following day legal form was given to the outcome by replacing the earlier single page of Bulk Supply Regulations with a comprehensive set of thirteen which included provision "for the importation acquisition and storage of liquid fuel in bulk. Among other things, it was provided that where a company licensed to import liquid fuels had at its disposal any space in bulk tanks it should, if so directed by the Minister, make that space available to the Government or to any other licensee".⁹ These were by no means the "pool" arrangements which were to be established exactly twelve months later, but they did mean important steps towards rationalising the use of facilities for bulk stocks. The Government had at least made sure of a place to put petrol, if it could succeed in obtaining it.

Meantime the other aspect of the problem—economy in consumption—was also occupying the time and ingenuity of the Liquid Fuel Control Board and its various State counterparts. The restriction of private vehicles to 1,000 miles a year prompted the query: does the Government favour removal of the vehicles altogether?¹ No definite policy was enunciated; the question was sent on to a later conference of Commonwealth and State ministers, but it was clear that arguments of civilian security did exist for the retention of the vehicles. The 1,000 miles "might be regarded" as indicating Commonwealth desire to keep the cars in service as long as petrol could be made available; the army was interested in vehicles other than cars, but the Department of Home Security was concerned over the requirements of air raid precautions. The conference of Commonwealth and State ministers in August merely recorded the need for adequate petrol supplies to be available for training exercises for air raid precautions and, in the case of an emergency, for evacuation of civilians. That such supplies for air raid precautions exercises should be "the minimum essential requirements" was stressed.²

The application of the ration scale when first introduced had revealed anomalies; for example, where the transport involved was seasonal, it necessitated a widely divergent consumption of petrol at different times of the year. Aerated waters, ice and ice cream were instances which came up as late as October 1941. The troubles of primary industry in this regard had needed attention much earlier, and, in respect of the August restric-

⁹ Economic and Industrial Committee, meeting 30 Jul 1941. Statutory Rules 1941, No. 185, 31 Jul, repealed Statutory Rules 1940, No. 214, 30 Sep.

¹ War Cabinet Minute 1290, 23 Jul 1941, recorded the request from the Western Australian Government in connection with registration fees.

² Secretary Fuel Board General Instruction 101 to State boards, 7 Aug 1941.

tions at least, had been the subject of "relief" immediately. Liquid fuel authorities found primary producers' needs especially difficult to cover satisfactorily. The need to relate their rations to the 44-gallon drum which was the farmer's usual mode of purchase was one instance. Pleas for relaxation were various and even more likely to be made as the restrictions increased.³ The board was aware, too, of other ways of avoiding waste which were yet untried, such as reducing the duplication of transport services. In July 1941 to the Economic Cabinet they pointed out:

Under the rationing scale imposed to date any limitation upon the movement of transport has been by granting a ration equivalent to an annual mileage fixed according to function. This has, however, allowed the continuance of many services duplicating other services using locally produced fuel. The Board considers that in the present emergency it is essential in the interests of petrol conservation to limit the area of operation of vehicles of various classes. . . .⁴

Some attempts at economy were recorded in most States, and these attempts were usually by individual effort but without any radical alteration of peacetime business methods. "The result of these efforts," said the Commonwealth Fuel Board, "falls short of what is essential in the present position of petrol stocks and definite action devolves upon Liquid Fuel Control Boards in the way of organising systems within industries and in various centres. . . ."⁵ Groups suggested were: master carriers, parcel deliveries, deliveries from factories etc. to retail shops, city and suburban deliveries of household requirements, of perishables from country to towns, sawmills to nearest rail head, milk and cream to railway or factory, newspaper services, commercial travellers and government departments. The attempts were voluntary; there was no means of compelling action, and when the new Department of Transport was created in June 1941 a further authority became interested in the future course of policy, but from the point of view of organising transport services, and only incidentally from the point of view of thereby saving petrol.

For the time being, however, the Government did not insist on the stringent measures implied in these suggestions. There were already unsolved problems of civilian adjustment with which it was necessary to cope. One, the relief of garage proprietors hit by rationing, was before the Cabinet at the same time as the board's memorandum; this also was withdrawn at the meeting of 24th July, but subsequently, under the title "Moratorium in respect of garage proprietors" discussion took place at the meeting on 30th July.⁶ At this it was agreed that "any relief addi-

³ For example General Instruction No. 102 Commonwealth to State Fuel Boards, 8 Aug 1941, acknowledged the need for additional allowances for officers of trade unions whose members were engaged on munitions and defence work.

⁴ Submission 18 to Economic and Industrial Committee, 14 Jul 1941. This was, in fact, a draft order limiting car journeys to certain mileages. It was withdrawn at the meeting of 24th July.

⁵ General Instruction 97, 25 Jun 1941.

⁶ War Service Moratorium Regulations (Statutory Rules 1940, No. 194, 10 Sep) had given substantial protection to members of the fighting services and their female dependents. Broadly payment of mortgage debts was postponed until after the war; repossession of goods bought under hire-purchase contracts was restricted; and security of tenancy of dwellings and shops was assured. These provisions were the natural corollary of predominantly voluntary war service. But the effect of other factors in their timing is suggested by the fact that they were followed less than two months later by Debtors' Relief Regulations (Statutory Rules 1940, No. 236, 28 Oct) which were of general application. These provided that any person "who is unable to pay any

tional to that provided by the present Debtors' Relief Regulations should be general in application". A new set of regulations replaced the earlier set.⁷ New restrictions were at once opposed by arguments of dislocation and hardship. For example, taxi-cab owners fought hard against restriction—as, of course, did other sections. Like so many others, mileage figures submitted originally had been inflated in the hope of being allowed a ration equivalent to normal. Beginning at 244 gallons monthly (for Sydney) in October 1940 the August ration brought them to 98—or 30 per cent of the established pre-rationing mileage. That the proposed August ration would put 1,400 Sydney taxi drivers out of work was asserted in a letter which the Minister for Labour and National Service read to the Economic Cabinet. That they came close to gaining their object of increasing their ration would appear from a note in Economic Cabinet papers in which the Minister for War Organisation of Industry said: "At a recent meeting of the Economic and Industrial Committee of Cabinet a decision was made, very wisely in my view, to loosen the restrictions announced for taxi cars on 1st August . . . thereby making a reduction corresponding to that applied to motor buses." The ration, however, in fact remained at 98.⁸

Of necessity, people became more interested in the efforts to introduce substitutes for petrol which earlier had induced little support. Gas producers rose in popularity and much expert time and departmental effort was spent in evolving suitable designs and arranging for manufacture. But like so many other items the time for easy production had gone. Milk cans wanted by New Zealand "to facilitate the changeover from butter to cheese production" as part of the United Kingdom food policy, and petrol drums for the army, competed with gas producers for supplies of black sheet metal. And there still remained the problem of providing those guarantees (they were inevitably financial) which would be satisfactory from the Government's point of view, and still induce the wary manufacturer to undertake production of gas producers. In May 1941 a set of regulations⁹ which replaced those of December 1940 continued to emphasise the obligations of the manufacturer to produce an equipment of approved design and standards of workmanship. The Technical Committee at the beginning of July 1941 sent recommendations to the Economic Cabinet. These were on the assumption that it would be necessary ultimately to equip 200,000 vehicles. Development should be in two sizes, and manufacturers should be invited to quote prices subject to guarantee

debt by reason of circumstances attributable to the war" might apply for relief to a tribunal which might postpone liability for up to twelve months, or suspend bankruptcy proceedings. The power to give relief was stated very generally, for up to this point there had been little hardship of the kind contemplated. It was not until 1942 that the effects of the war, and especially of government policy, on contractual obligations became a matter of serious importance.

⁷ Statutory Rules 1941, No. 194, 13 Aug.

⁸ It should be noted that the basic allowance varied between cities. For example, when Melbourne was 169 Sydney was 244 and there were similar differences in other States, arising from population, public transport services, geographical situation and public demand.

⁹ Statutory Rules 1941, No. 115, 28 May.

of sales to the extent of 25,000 units over a period of six months; meantime contracts with eight approved manufacturers should be made, subject to a guarantee of total sales to the extent of 10,150 units during a period of six months. Fitting and servicing were to be left to State governments; no financial assistance was to be given to either manufacturers or users; the Department of Supply and Development was to prepare some form of control over sale to protect essential users; and State governments' attention was to be directed to the needs for charcoal.

A further check on costs (they were quoted as "either less than or about £50") led to the decision at a later meeting that, for the 10,150 units, the Commonwealth would guarantee manufacturing companies cost price, "understood to be in the region of £30", but to be subject to the margin between cost price and cost to users being referred to the Commonwealth Prices Commissioner. Earlier decisions, prompted in part by the urgency of the time, had been made by the War Cabinet at the end of April. These included approval of a recommendation that the Ministers for Commerce and for Supply should consider a scheme for some subsidy to enable producer-gas units to be purchased by private owners at reasonable cost. The Commonwealth was to equip its own trucks, other than army trucks, with the units, and States were to be urged to do the same, while a continuing strong appeal was to be made to private users to instal the units. The Liquid Fuel Control Board was to report on proposals for discriminating in petrol rationing; the 10 per cent sales tax was to be removed. A grant for further research (£3,000) went to the Council for Scientific and Industrial Research while the manufacturers were to be helped to lay in security stocks of materials if necessary.

But the fitting of an equipment to a vehicle continued to be, from the owner's point of view, a last resort. Even fitment to Commonwealth vehicles was not achieved speedily. While all units were built on similar general principles, and used the same fuel—wood charcoal—there was a wide variety of size, design, filtration systems, gauge of metal and location on the vehicle. The only quality significantly missing from all of them was the quality of cheapness, wartime scarcity of materials and complete lack of any uniformity in design combining to keep prices high. Fitment did have an effect on the ease of manoeuvre or safety of vehicles. The suggestion already mentioned—discrimination in petrol rationing—was to prove the really effective weapon, and it was not yet tried. For the time being, then, units fitted were comparatively few as the accompanying table for New South Wales shows:

	Cars	Taxis	Buses	Lorries	Tractors	Cycles	Total
May 1940	20		1	38			59
Oct 1940	84	1	6	128			219
Oct 1941	564	100	17	1097	4	1	1783
Oct 1942	3890	338	195	7853	39	6	12321

For power alcohol important developments followed the presentation of the lengthy report of the Power Alcohol Committee of Inquiry.¹ The recommendations concerned chiefly the increase of total production to 40,500,000 gallons a year and the use of wheat to achieve this new production. The Supply Department's submission to the Cabinet recommended increase of total production to 22,000,000 gallons a year and the discussions which followed concerned the policy adopted in erecting and managing the new distilleries which the report recommended for each of the States of Western Australia, South Australia, Victoria and New South Wales. A conference with the States which had included the two private companies most closely concerned² was discussed at the Economic Cabinet on 24th July, and the upshot was a recommendation that the estimated £1,250,000 needed to erect the new distilleries be provided by the Commonwealth and further investigation be made into the proposals of the private companies for erection and management on the basis of a five year period from beginning production. Ultimately the relevant proposal was that of the Colonial Sugar Company and they proceeded to implement it. In the course of the discussions the 10,000,000 gallons quoted in the Supply Department's recommendations grew to 12,000,000, that is, four distilleries of 3,000,000 gallons capacity. The National Power Alcohol Company put forward no proposal because its principals³ had their technicians too heavily involved in other aspects of the war effort. A point of government policy is revealed in the views on an offer from an American company to establish production: ". . . for political and other reasons—foreign and possible association with important oil companies—it is desirable to confine consideration to companies already established and operating in Australia." The sugar company was quoted as a "wholly Australian organisation in outlook and composition".

The Department of Supply and Development had recommended that arrangements be made to absorb production through the oil cartel;⁴ the absorption of power alcohol, however, was not a simple administrative procedure. Distilleries stepping up the production of existing plant used raw sugar to supplement insufficient supplies of molasses and this increased the price of power alcohol so that the blended mixture had to sell at 1½d gallon above standard petrol and this lessened the demand for it. Moreover, although sufficient power alcohol was produced in Queensland to provide a State-wide blend, this situation did not exist in other States, and produced, for instance, the difficulty of apportioning the supply as between city and country, as in New South Wales. And this was made doubly difficult by the complexities of "standard price" and "country differentials" which operated in regard to standard petrol.

¹ Dated 17 May 1941, published as No. 43 (Group F) 1940-41 *Parliamentary Papers*.

² Colonial Sugar Refining Company and National Power Alcohol Ltd.

³ Distillers, Edinburgh.

⁴ Full Cabinet Agendum 672, 5 Jun 1941. Ten months before (Agendum 322, 13 Aug 1940) at an early stage of discussion about the use of power alcohol as a substitute fuel, Supply and Development had recorded that "there is a conflict of interest between the oil companies and the producers of power alcohol which must be resolved".

The major point of policy, however, was unchanged, and unchangeable. The country's supply of substitute fuels must be increased wherever possible, and the erection of new capacity accordingly went ahead.

As part of the restrictions on non-sterling imports supplies of American tobacco were sharply curtailed during 1940 and a form of rationing imposed by limiting by weight deliveries of tobacco and cigarettes from licensed excise factories, the amount being restricted to actual deliveries during the year ended 30th September 1940. This was an overall limitation for the year 1940-41, irrespective of the source of the leaf, and there was therefore an incentive both to growers and manufacturers to increase the proportion of Australian leaf used.⁵

There was also created a problem of relations among the manufacturers, since in the past the small factories had relied wholly or mainly on Australian leaf. This was solved by an agreement among the manufacturers to share Australian production in proportion to their actual purchases during the year ended 30th September 1939, but this created a new problem since it gave manufacturers, if they chose to use it, a monopolistic buying position, and accordingly growers pressed for the Commonwealth to institute a marketing scheme.

This was finally ironed out after a series of conferences between growers and manufacturers and the Department of Trade and Customs, in which the main difficulty in reaching an agreement was that while manufacturers were prepared to concede substantial price increases they were not willing to agree to the principle of a minimum average price for which growers pressed hard. In the end growers accepted the offer of manufacturers to pay 25 per cent grade for grade above the prices of 1939 and a marketing scheme was agreed upon.⁶

This involved the establishment of an Australian Tobacco Board representing growers, manufacturers and brokers with a Commonwealth chairman, the main function of which was to institute and manage an appraisals system. All locally-produced leaf had to be submitted for appraisal in accordance with a table of limits and all sales of leaf had to be at appraised prices. It was provided that no leaf should be appraised at less than 6d a pound so that in effect all leaf not deemed worth that much was classed as unusable, and it was provided that all such leaf should be either

⁵ Efforts at growing tobacco in Australia had a long history in which the striking feature was the large fluctuations in the area under the crop. The explanation was that although soil and climate appeared to be suitable it had not, in the past, proved possible to produce large amounts of high quality tobacco. Most tobacco growers farmed only small areas (usually in association with other crops) and the principal difficulties had been disease and unsatisfactory methods of curing. In the years immediately before the war there was in progress a marked geographical shift of the industry so that it was coming to be concentrated in north and south Queensland, northern New South Wales, Victoria and Western Australia; the move reflected a shift from dark to light leaf.

Growers had repeatedly pressed for some form of marketing scheme which would give them financial security, and this was achieved in 1931-32 when manufacturers agreed with the Commonwealth Government on a substantial minimum purchase at an average price of 2s 3d a pound. This led to a sharp rise in the area under crop but the manufacturers were not prepared to repeat the experiment, and the area under crop fell sharply. The main source of tobacco manufactured in Australia remained the United States, local production in 1939 accounting for 4,500,000 pounds out of the 20,000,000 used in tobacco factories.

⁶ Statutory Rules 1941, No. 97, 9 May.

destroyed or so treated that it could not be used for the manufacture of smoking tobacco.

Appraisals did not begin until May 1941 but, despite delay occasioned by these disputes over price, the 1940-41 crop had been held back and was handled by this scheme. On the whole it appears to have worked satisfactorily despite a running fire of criticism from growers, directed not only at appraisers but even at their own representatives on appraisal committees.

But these considerations affected the primary production of local tobacco which, as leaf, represented approximately one-fifth only of manufacturers' requirements. A committee appointed by the Minister for Trade and Customs, as the result of a conference in December 1940, established the basis of tobacco rationing by limiting the output of all manufacturers. Until February 1942 this committee was to function without legal status.

The adoption in July 1940 of the sliding scale to govern rationing of newsprint supplies had been on a voluntary basis, and in the main it worked satisfactorily that way. At least one new publication proved difficult. In March the Minister for Trade and Customs had asked the Cabinet for a statement of policy when a Sydney newspaper sought a licence to import newsprint for a new daily.⁷ (The adoption of base year figures in import licensing meant that decisions of policy would need to be made regarding any publications begun or sought to be begun after the commencement of licensing.) Viewed at the time the decision was not an easy one; no great disturbance had resulted from the war; the issues seemed purely financial ones; and the Cabinet was still loath to commit itself in those early months to any course which might give rise to unemployment. In the event the Cabinet approved the licence for a provisional amount of newsprint. When in May the decision not to permit new publications was made, the Cabinet agreed to reimburse out-of-pocket expenses incurred by interests who had been proceeding on the assumption that new publications would be continued, and the licence to import newsprint for the new daily was revoked. There followed a long and involved litigation over the claim for reimbursement by the aggrieved newspaper. Legal opinion had it that the Commonwealth was not under any obligation to compensate, but there could be no doubt of the "moral" obligation. There were complex factors involved: the increasingly autocratic position of the Department of Trade and Customs in matters of import policy; the quality of the information originally supplied by the applicant; the urgency of the dollar problem; and the difficult position of the Government which, while anxious to gear the country for war in 1940, yet sought to reconcile this with as little interference as possible with the established procedures and principles of peacetime trading. The incident was an example of the confusion of the time and at the beginning of 1941 the policy of firm refusal, since May 1940 administered merely on a Cabinet decision, was given weight and

⁷ A complication was the fact that the applicant newspaper had been among those who were regular purchasers of United Kingdom newsprint.

legal standing by incorporation in regulations.⁸ In the event the Cabinet did honour the earlier arrangement and the new newspaper appeared for the first time in March 1941.

There were other reasons for the need to make regulations to cover the scheme. As early as July 1940 the Minister for Trade and Customs had pointed out the excessive use of paper (in the light of wartime restrictions) by packers of biscuits, tobacco, hosiery, to name only a few. The submission at the time had as its theme the unemployment arising out of restriction of newsprint, but by the time the regulations were made the need for rationing paper for purposes besides newspaper publishing was apparent. The regulation went beyond newsprint to foil paper, cellulose transparent wrapping, and other and varied paper products.

In the light of the non-sterling exchange position the scale of reductions was reviewed towards the end of the first twelve months of the scheme. With the closure of sterling sources and increased cost of newsprint, even to import the requirements of the 33 per cent rationing scheme would have involved more than the expenditure for the base year. Moreover with 1,200 commodities under the total import prohibition from non-sterling areas it was clear that newspapers must take a further cut. They were still being published on a somewhat lavish scale, and shipping space for paper could be ill afforded. Accordingly a new set of reductions, aimed at 60 per cent reduction on the total tonnage in the base year, was adopted. In terms of the average number of broadsheet pages a week during the base year, this ranged from nil (up to and including 24 pages) to 60 per cent (over 132 pages) in daily newspapers, from 20 per cent (less than 24 pages) to 65 per cent (over 48 pages) in Sunday newspapers, and from nil (up to and including 4 pages) to 50 per cent (over 40 pages) in weekly newspapers.

Licences to import newsprint were issued to enable stocks at 1st July 1941 to be built up to nine months' requirements on the then rationed basis. And in the first half of 1941 assistance came from another quarter: the local mill in Tasmania came into production in March with 334 tons for the month.⁹

In other raw materials controls with legal standing were in force in the last half of 1941. Jute and flax have already been considered. Tinplate which had figured in the pre-war plans was the subject of a conference in July 1940 but no serious action followed beyond the decision to order 50,000 tons from the United States through the usual commercial channels, as a safeguard. This was to come within the "security stocks" procedure. Later in 1940, however, British manufacturers' output was so taken up by local demands that Australia was advised to seek future

⁸ National Security (Metal Foil and Paper) Regulations, Statutory Rules 1941, No. 46, 26 Feb. The draft regulations had said that a person might not print or publish a paper which was not being published before 23 May 1940, nor at more frequent intervals than applied at that date. The date was altered to that of the new regulations.

⁹ It was to be 10,000 for 1941.

supplies elsewhere; and in January 1941 the British Tinplate Controller refused export licences for shipments to Australia except where priority cables vouched for them as for munitions. There were other complications. The Minister for Supply and Development asserted that fixing imports on the 1938-39 value did not allow for the operations of new war activities which had caused extensive demands for supplies, and instanced tinplate, sulphur and similar items. A certificate from the Department of Supply was accepted by the Department of Trade and Customs only if the required supplies came under the reserve stock scheme or were for defence purposes. The trouble was imports required for normal commercial purposes: the firms concerned did not wish to come under the reserve stocks scheme; they were in a position to finance the importations and the supplies were available. Later the sub-committee which was to investigate this matter had another similar problem referred to it—the difficulties of getting tinplate for the canning industry.¹

Orders were put through the British Purchasing Commission in the United States, and in turn through Lend-Lease when that arrangement came into existence. The highly technical nature of tinplate orders (reflecting the varied individual specifications which the use of canisters of a wide range required) had resulted in May 1941 in the establishment of a Tinplate Board.² Doubts about the propriety of such a board controlling Lend-Lease material,³ however, resulted in its relegation to an advisory capacity, and an Executive Officer became responsible for the interpretation of policy and the general supervision of tinplate matters.⁴

A word should be said about the "security stocks" of which mention has been made. The discussions of June 1940 had ranged widely. To begin with the Minister for Supply and Development named materials like jute (and cornsacks and woolpacks), rubber, chemicals, tinplate, timber and paper as likely subjects of emergency stockpiling, but the submission was vague in recommendations for action:

I have endeavoured to be specific wherever possible in this memorandum, but it will be evident that appropriate action will vary with each commodity. I can only recommend that Cabinet authorise such action as is found to be appropriate by myself and Treasurer. It is clearly desirable to induce each substantial industrial user or merchant to stock up without Government intervention or assistance, and

¹ Yet another item for the sub-committee was that of carbonising woollens (Minute 920, 1 Apr 1941). The United Kingdom had asked Australia to limit her quota to 30,000 bales but the Minister for Commerce wanted the industry maintained as there was a market in the United States for the product.

² Its chairman had been from Mar 1941 adviser on tinplate matters to the Controller of Materials Supply and was on loan from a firm of tinplate importers. The four trade members of the board represented can-making, meat canning, fruit canning and milk canning interests. The two departmental members were the Director of Naval Victualling and an officer of the Department of Commerce.

³ Economic and Industrial Committee Agendum 55, 15 Aug 1941. The board "in carrying out its function" was "rationalising the use of tinplate in Australia by devising substitutes and reducing the variety of items ordinarily manufactured". So far no finality had been reached about regulations concerning powers which the board was informed would be allotted to it. The Treasury and the Department of Trade and Customs were opposed to regulations covering the original terms of reference—the objection being that these might "interfere with the general Lend-Lease policy or at least the application of Lend-Lease principles".

⁴ Statutory Rules 1941, No. 210, 26 Aug.

in present circumstances we may expect a reasonably good response to an appeal of this nature. It may be necessary, nevertheless, to involve the Commonwealth in substantial liabilities, and I see no way in which Cabinet can now give time to consider all details.⁵

At the same time the Minister put forward general observations on kindred problems—substitutes for essential supplies, rationing, and rationalisation—but beyond a conference on the last which after “useful discussion led to no specific plan”;⁶ such matters had to await the exigencies of late 1941 before their need was proven or the Government felt that they were politically practicable. The provision of security stocks was also related in some ways to the distribution of civilian goods in an emergency.

Armed with regulations⁷ the Minister set about negotiations and in August 1940 the programme envisaged covered:⁸

Rubber	.	.	.	.	.	.	£388,000
Tinplate	.	.	.	.	.	.	1,000,000
Cotton	.	.	.	.	.	.	600,000
Jute	.	.	.	.	.	.	1,600,000
Industrial Chemicals and Dyestuffs	.	.	.	.	.	.	667,000 £4,255,000

but these figures were optimistic. The Government envisaged standard conditions: stocks to include essential items which could not be made in Australia; to be those imported in excess of stocks at 30th June 1940; to be purchased, imported and stored on conditions approved by the department, and not to be reduced except with departmental approval. The Government would issue import licences; assist in securing shipping space; and guarantee special purchase overdrafts. Where companies established stocks at their own risk without overdraft guarantee, standard conditions as to import licences and averaging costs were to apply. The Government agreed to protect against loss on realisation, provided the company also agreed that any profit at the time of settlement would accrue to the Government (that is after the termination of hostilities; value to be replacement value of original or comparable stocks). The Prices Commissioner would allow the additional costs, for example bank interest, storage etc. in determining current prices; industries were to be protected against falling prices, or against imports at lower prices.

By April 1941 the arrangements had been put to only restricted use. In rubber, for example, while one company had entered into an agreement for £100,000, the other two held reserve stocks equalling £357,000 outside the government scheme. Large quantities of industrial chemicals were being imported outside the government scheme. In tinplate there were few security stock agreements but it was known that private reserve stocks had been built up equivalent to nearly twelve months' requirements. The

⁵ Full Cabinet Agendum 383, 17 Jun 1940.

⁶ Held in Sydney on 17 Jul between the Departments of Supply, Munitions, Trade and Customs, the C.S.I.R. and Sir Ernest Fisk (Full Cabinet Agendum 426, 29 Jul 1940).

⁷ Statutory Rules 1940, No. 136, 17 Jul.

⁸ Munitions Digest, Aug 1940, p. 190.

largest transaction, £108,000, needed no finance but did require an indemnity against loss on final realisation.

It was this point which chiefly troubled those importing stocks. Manufacturers were generally favourable, but perturbed at possible overstocking at the end of the war, especially as several had sustained heavy losses at the end of the previous war. Merchants were not so favourably disposed; they did not usually carry heavy stocks, and feared that the arrangement would interfere with business immediately following the end of the war. When the forms of agreements (there were three)⁹ were being drafted they developed into formidable documents and many companies who had been earlier attracted by the proposals were attracted no longer. There was objection by many to submitting to strict control and supervision of reserve stocks; they considered that these should be under their complete control and they apparently never contemplated that the goods would be bonded in the name of the Commonwealth. The clause which disclaimed Commonwealth legal liability relating to protective arrangements after termination of hostilities was interpreted incorrectly by some firms as also applying to the Commonwealth financial guarantee against loss on realisation. Trading banks influenced customers against agreements; they were reluctant to agree to the Treasurer's decision that where the Commonwealth gave a guarantee to a trading bank in respect of a security stock overdraft, the rate of interest chargeable by the bank was to be 4 per cent per annum. They agreed only when informed that the Commonwealth Bank would be prepared to grant a special security stock overdraft at the reduced rate. The chief difficulty was not finance, since banks would provide aid in order to avoid any direct supervision by the Commonwealth Bank. Companies wanted freedom of action to use or dispose of stocks as they thought fit to meet the requirements of their business at any time. They would, it seemed, establish stocks provided they were given import licences and indemnity against loss on final realisation. But although this relieved the Commonwealth of financial guarantee to overdrafts, it would not have ensured that the reserve stocks would be maintained as security stocks in the national interest.

The controls so far discussed were by no means the complete picture. Beside them there existed the "unofficial" control (or rationing) of raw materials which the nature of the Australian economy itself made possible, and of which the development of the materials supply section of the munitions organisation in particular is the outstanding illustration. It would appear that, up to the entry of Japan at least, those responsible for this type of control would not have had it otherwise. Moreover, up to that event the procedure proved efficient enough. It should be noted, however, that the emphasis was almost invariably on control (or rationing) of raw materials for production, of goods at the source. And in most cases

⁹ A. standard agreement in which guarantee was given together with indemnity against loss;

B. agreement in which a bank guarantee was not given, but only an indemnity against loss;

C. agreement covering security stocks of raw cotton containing special provisions including the cotton crop.

the source was either one authority, or a closely associated group. In effect, Australia had, for instance, only one steel industry; and other metals where they were not the subjects of single ownership were closely associated.

There was too a sort of "slack" which had still to be taken up. This arose from the fact that once the needs of war production had been served, there was no real concern about what happened to the rest of the resources. This "slack" was taken up with a jerk when Japan attacked, but for the time being the type of legal control which was later to be so specific (as, for example, the terms of the Control of Essential Materials Order) was not employed. The need for unequivocal legal backing appears to have developed when the control required was over end-use and consumer goods. There were greater complexities, thousands of users instead of a comparatively few manufacturers. But in addition the emergency was greater, and the need too.

To the end of 1941, at least, the foregoing arrangements were all that were imposed. Within them, however, there were important attempts from mid-1941 onwards to evolve some sort of administrative authority which would have in view the wellbeing of the whole war effort; an authority which would pick up and resolve the conflicting interests and demands which had emerged under the wartime development thus far achieved. Such was the ideal. The reality was to fall far short of it; not because those entrusted with the task were incapable of it, not because the purpose to be pursued was unclear; but the conflicts to be resolved went much deeper than mere wartime disturbance of established procedures—and this was true as much in the sphere of government administration as in the sphere of industry and commerce.

The creation of the new Ministry of War Organisation of Industry had been part of a general reorganisation of higher war administration, emphasis being placed on economic matters.¹ This had involved the creation of the Economic and Industrial Committee of Cabinet, and the appointment of Professor D. B. Copland to the new post of Economic Consultant to the Prime Minister. The ways in which the reorganisation was to function were sketched in tentative fashion only; considerable discussion had yet to take place, and at the end of July the Economic Consultant outlined the changes, actual and prospective, to the Financial and Economic Committee. In his view the new Department of War Organisation of Industry was "to assist the Cabinet Committee in dealing with the impact of war economic policy upon the economic system".² But, he continued, its functions had not yet been clearly defined. The following, however, had been suggested:

- (a) To correlate the expansion of the war economic programme and the contraction of civil supply.

¹ For an examination of this reorganisation see Paul Hasluck, *The Government and the People 1939-41*, in this series.

² A further development in the scheme was to be a "Heads of Department" Committee for which it was agreed "that it would be useful if" it "were to use F. and E. as a Committee of advice".

- (b) To devise means of adjusting economic conditions to meet the impact of the war economy with the minimum of disturbance.
- (c) To investigate war economic policy with a view to promoting greater coordination of action among the administrative departments with special reference to import restrictions, rationing, labour transfers, measures for establishing primary production.
- (d) To examine measures for assisting traders adversely affected by war economic policy. These measures would include a moratorium, discriminating price control, rationalisation of production.

The one really insurmountable difficulty which the new department would encounter can be illustrated by the comment in the committee which followed:

After discussion it was suggested that the first of the proposed functions for the new Department should be deleted so as to avoid any implication that the Minister of War Economic Organisation would have any power over other Ministers. The new Ministry would only do things itself when another Department which could appropriately take action could not be found.

In the Economic Cabinet the Minister announced that he was ready to "receive suggestions and requests for the investigation of matters which affected other departments in association with his own". And as a step to this end he had been in touch with the Tariff Board with a view to using it as an investigating body (as the earlier Director of Economic Coordination had done).³ And though he was doubtful whether it could conduct all the enquiries required by the new department, this could be adjusted.

These announcements were indicative of the way the Minister was then viewing the department's functions. He spoke more fully and vigorously two weeks later at the Advisory War Council when that body discussed the transfer of non-essential industry to war industry.⁴ Reverting to the definition of the Department of War Organisation of Industry's functions given by the Prime Minister on 10th July, the Minister spoke of the delay in the appointment of a Director, and of the fact that because the department had not yet functioned no proper method of reference of questions to it had yet been established. Just how this might and did produce problems was indicated by the Supply Department placing large contracts for army boots which would take all available leather, without considering the impact on, for example, boot repairers, nor the fact that fewer hides were available because exports of chilled and frozen beef had fallen (and therefore killing of cattle). In the Minister's view "a problem of this kind should come to him before the order was placed and not after the problem had been created". A further instance was given by quoting yarn, the whole output of which was required for orders for the Eastern Group Supply Council.

³ As early as 5 July 1940 (Full Cabinet Agendum 403) the Minister for Supply and Development, in connection with his memorandum on security stocks and essential civil supply had said, under the heading "Rationalisation", "It occurs to me that this kind of problem is eminently suitable for the Tariff Board and its staff. I wish therefore to bring before cabinet a suggestion that my Department and the Department of Munitions should be authorised to confer with the Director of Economic Coordination, the Department of Trade and Customs, and members of the Tariff Board and to report to Cabinet." Nothing came of the subsequent report.

⁴ Minute 449, 6 Aug 1941.

On the other hand, he felt that unemployment and similar disruption resulting from petrol rationing should be the concern of the Department of Labour; but if he was to be responsible for the capacity of unemployed country garages, then the effects of rationing should be brought to his notice "in the first place", and the "problem might have been handled in a more constructive manner", for instance the use of the garages in munitions work. Bluntly the position was that his department "could not function by taking over a mess after it had been created. It must be in a position to be able to deal constructively with problems at the beginning".

The uncompromising element in all this was the attitude of the senior departments which the Financial and Economic Committee had foreseen earlier; if the Department of War Organisation of Industry was to be left without any executive authority, then it could employ only its "advisory" and "persuasive" powers to either anticipate conflicting action beforehand, or resolve it after the damage was done. Indicative of the inter-departmental difficulties, in relation to matters more general than those discussed above, was the Minister for War Organisation of Industry's statement to the Economic Cabinet on the report of the Western Australian War Industries Committee. ". . . the matter was not one which came within his sphere of War Organisation of Industry, dealing as it did with a number of recommendations which affected various departments, most of which had a financial implication." The various recommendations would require to be considered by the ministers of the departments concerned separately.⁵

Nevertheless discussions continued on the basis of the Economic Consultant's proposals which, when they came to the Economic Cabinet in the middle of August, stated that the Department of War Organisation of Industry

. . . would not at first have much in the way of administrative functions, though these might develop with experience. The prime function of the Minister would be to inform and advise Cabinet and particularly the Economic and Industrial Committee on the complex problems which are his responsibility. It will be necessary for the new Minister to maintain constant contact with the Departments represented in the Economic and Industrial Committee of the Cabinet and to undertake such

⁵ Economic and Industrial Committee submission 33, meeting 30 Jul 1941.

This report, which had been made by a parliamentary committee on the recommendation of the Advisory War Council of 4 Apr 1941, was furnished on 6 Jun 1941. The committee had ranged widely; comment by the relevant departments in most instances either refuted the claims for development, or explained that the relevant productive capacity was already being used to the maximum permitted by machine tools and gauges available.

The extent to which such a report had its origin in the vexed and complicated relations between eastern and western States, and in the popular belief that the war was being run from Melbourne and Sydney, though not at first sight part of the economic story, needs to be borne in mind.

The state of mind was not confined to Western Australia. Tasmania felt the same way, and in May 1941 their Premier requested a similar investigation. That government "was not satisfied that the productive equipment available in Tasmania was being fully utilised in the war effort". (Economic and Industrial Committee submission 34.)

Undoubtedly the urgency with which production had to be developed meant that the eastern and better-developed secondary industries were used before the smaller States could be brought in. As between these other States, strategic considerations dictated preference for South Australia. So far as munitions were concerned, a factor not always appreciated by outlying States (and by some of the disemployed capacity of private industry in the eastern States too) was the standards and high precision of work which must be assured if that work were to be used in munitions; in the smaller States, in general, only railway workshops measured up to these standards.

administrative work in adjusting economic conditions to meet the impact on the war economy as is outside the operations of any individual Department. It would be desirable for the new Ministry to establish liaison officers in the several Departments. These officers should normally be existing members of the staff who have a good knowledge of the administrative problems of the Department and should temporarily be seconded to the new Ministry.⁶

The Minister intimated that he accepted these proposals, and informed his colleagues that the Tariff Board was available for the purposes of inquiring into the wool and cotton textile industries and the boot and shoe industry and any other inquiries referred to them by himself.

On the more important matter of anomalies in capital issues and building,⁷ which he saw in the present law, the Minister had no clear lead beyond the agreement by Economic Cabinet that the one should be "considered under a fresh heading 'expansion of industries'", and the other "should be kept under constant notice", while "War Organisation of Industry should function in liaison with other departments in order to obtain a complete linkup".

So far as it was possible within these initial uncertainties, the new department pursued its course of "conferences and discussions". And by the end of September the Minister could lay before the full Cabinet that

The outstanding conclusion . . . concerning the supply of war materials is that if there is to be a substantial increase in production in accordance with the wishes so frequently emphasised, it is essential to pay more regard to the requisitioning of supplies.

Similarly if we are to avoid disorganisation of industry and if we are to find a basis for the rationing of civil requirements it is vital that we should plan the forward requirements in munitions materials and foodstuffs for the conduct of the war.

. . . there are delays and difficulties . . . but the real fact seems to be that many of the troubles arise because of the spasmodic way in which goods are requisitioned and the limitations placed on the quantities.⁸

The discovery was not new. It had been reiterated many times before. So early as February 1940 the second Supply Minister had observed what the first Minister for War Organisation of Industry now stated emphatically: "There are too many instances of factories alternating between high pressure and low pressure, as the result of erratic demands upon them. It is evident in such cases that an even rate of production would make possible a larger annual output. It would also facilitate the proper regulation of raw materials and manpower". The whole position would

⁶ Submission 54, dated 4 Aug. meeting of 15 Aug. The submission included a description of the Heads of Departments Committee, the chairman of which was to be the newly appointed Director of War Economic Organisation (Sir Harry Brown), who was also Coordinator of Works.

⁷ He quoted the "instance of companies already established being in a more favourable position than new companies in that if a new company wished to set up an industry it must approach the Capital Issues Branch of the Treasury for permission to raise the necessary funds where an already established industry could expand by an expenditure of moneys in hand. . . . Similar anomalies had appeared in connection with the Building Advisory Board. . . ." (Economic and Industrial Committee meeting, 15 Aug 1941.)

⁸ Agendum 757, 30 Sep 1941. The argument against too generous forward ordering was noted though not destroyed: "Bearing in mind the call there is overseas for all classes of war material and the anxiety so frequently expressed that production is not as high as those in authority would like to see it, there would seem little likelihood that Australian effort, if increased to the maximum possible, would result in overstocking and waste; provided of course that the goods selected for manufacture are known to be those in general demand."

be simplified if a start could be made "at the top" to determine the extent of all the nation's requirements in manufactured goods.

It was no mere coincidence that a submission dated only a day later should come before the Economic Cabinet from the Minister for Supply, headed "Adequate provision in Australia over a reasonable period for the production of war supplies", in which he laid at the door of the Services the blame for "the heavy demands which are made on the department for the production and deliveries of supplies at very short notice".⁹ Specifically he quoted the difficulties which had arisen when, after the demands of the Eastern Group Supply Council in April and May, the department had sought to ascertain service requirements to the end of March 1942 so that they could be correlated with the Eastern Group Supply Council enquiries and essential civil needs. Contracts were arranged on the basis of these enquiries, but without firm demands, and accordingly the department ran foul of the Board of Business Administration over incorrect procedure. But the fact remained that, according to the department, they were still without information about service requirements; contracts were due to expire in a matter of two or three months; and it was fortunate that the demand from India was so great that large current orders would take up any slack of capacity made available by the absence of Australian orders. The department was not happy either about the length of time needed to get orders through the established administrative machinery, and ended with the recommendation:

- (i) that provision of the Services be on the basis of twelve months' supplies with adequate break clauses in the contracts where necessary;
- (ii) that the Supply Department be vested with general authority to act where necessary on estimates furnished by the Services in anticipation of firm demands and that those estimates be sufficient for the Supply Department to take action which it considered necessary, having regard to all the circumstances.

The foregoing was a far cry from the embracing "functions" which had been discussed for the Department of War Organisation of Industry, but at least the new department had stated a finding and come to grips with a problem. A week later its course was guided by a new minister in a new government.

The next six weeks were occupied with administrative adjustments and innovations.¹ The clothing contracts, however, were not allowed to wait for the evolution of Production Executive. A submission with the same title as that to the now defunct Economic Cabinet came before the War Cabinet on 22nd October.² It concerned clothing contracts only and repeated the procedure outlined by the Board of Business Administration earlier:

⁹ Submission 67, 1 Oct 1941.

¹ See P. Hasluck, *The Government and the People 1939-41*, for a discussion of the origins of Production Executive, and of the discussion between members of the Cabinet as to its status and powers.

² Agendum 340/1941.

Production period to be six months for garments; twelve months locally manufactured materials; approximately eighteen months for imported materials; quantities were to be divided into monthly quotas and production to proceed on these monthly quotas until firm demands were received from Supply for the next production period; there should be a one month break clause for garments; three months for materials and a quarterly review of production in relation to requirements; approved reserves were to be maintained by Service Departments to meet unforeseen needs. Supply and Development were authorised to anticipate demands to the extent necessary to ensure continuity of production. Periodical proposals regarding supplies of clothing must be submitted to Defence Coordination not later than three months prior to the date of expiry of the then current production period and Service departments were to take action accordingly.

On the same day the Minister for Munitions stressed the need for long range plans of service requirements so that his department might draw up plans for future production, in effect the same general problem in another quarter. The Director-General carried the matter further in his discussions with the War Cabinet, insisting on the need to maintain production and asserting that "orders should be placed for a certain number of guns per month and six to nine months' notice of cessation of production should be given to enable raw materials on hand to be used".³ This was not a demand for production on a wholesale scale but rather a desire for planned production, by contrast with the all-out effort of the previous year or so.

It was significant, however, that the second working submission of the new Production Executive which was to become associated with War Organisation of Industry in much the same manner as the now discarded Economic Cabinet had been, repeated, in effect, the recommendations of the earlier Minister for Supply above.⁴

The new secretary of the Department of War Organisation of Industry, in discussions with the Financial and Economic Committee, revealed the view of that department's functions which was emerging:

The programme is laid down by War Cabinet and then passed to the Economic Departments for execution. The Department of War Organisation of Industry should then examine the programme to ascertain whether it can be fulfilled, and should report to the Production Executive on the transfer of resources and restrictions of consumption which will be necessary if it is to be fulfilled.

Sir Harry Brown stressed the point that it was "essential for the production programme to be adequately planned, and that the major necessity was the development of continuity of orders". He stressed again and again the need for a long term programme. With orders placed on the basis of

³ War Cabinet Minute 1476, 6 Nov 1941.

⁴ Production Executive Agendum 5/1941, Minute No. 5, 8 Dec 1941 approved that:

- (i) Service Departments should, when placing a demand be required to order at least the total requirements for twelve months and to specify the monthly rate of delivery necessary; and
- (ii) when an even flow of raw materials required is difficult to arrange because of their being in short supply or because they have to be ordered from overseas, then the supplying authority—Aircraft Production, Munitions or Supply Departments—should be empowered to order quantities of raw materials in excess of the quantities required to supply the approved demand on the following basis—

If it takes, say, six months to obtain the raw materials, then an additional quantity equal to six months' supply at the delivery rate agreed upon would be ordered, but with a "break clause" in the contract, which will be operated by the supplying department only if prior notice six months ahead is received from the Service Department concerned to the effect that no further quantities of the article or equipment will be required.

at least a twelve months' programme, a survey of the relevant factories should be made and the work allocated according to capacity. The Department of War Organisation of Industry should ascertain the civil output from industries drawn into war production in order to ascertain what cut in civil consumption was necessary because war orders had been placed. And on the basis of orders allocated it would then be necessary to list the requirements of raw materials.

Though such a state of coordination might be desirable, what had so far been practicable, and was in fact likely in the future, was pointed out by Brigden. It was "impossible to achieve a completely coordinated programme, as finality must wait on the slowest unit, and this delays action seriously. The Departments of Supply and Munitions, particularly the latter, had always been trying to obtain a production programme [from the Services]. They had succeeded in respect of some large items, but as a whole the programme was seriously incomplete. In addition, the production programme, even when obtained was always necessarily subject to constant modification in detail."⁵

It is worth noting, too, in view of the later difficulties of this most interesting of the purely wartime departments, that the shrewd Giblin raised the question of the possibility of the need for greater incentives in order to achieve production; and that manufacturers switching to war production suffered from competitors who continued to produce for civilian requirements; ". . . control of manufacturers by a system of licensing should be instituted . . . and the Department of War Organisation of Industry might be a suitable body to administer the licensing, with perhaps the advice of the Tariff Board."⁶

Such was the record of the new department in terms of high policy submissions. Below this level it continued to be part of the discussions which by now were general throughout the administration, and which were implicit in the terms of reference of the Department of War Organisation of Industry: how to increase the country's effort; how to restrict civilian consumption with this aim in view; and in particular the place of rationing in such plans.⁷

As with so many wartime changes, discussions of the idea of rationing had been going on at irregular intervals for months before it was the subject of any formal cabinet submissions. (As a general principle it had been, of course, an accepted factor in pre-war plans.) Practical application of the principle, however, had been limited, as much by the administration's assessment of the country's need for it, as by the public's expressed resistance. It was, nevertheless, politically possible where it could be disguised; it was only direct consumer rationing which was difficult. As a consequence, the general principle of rationing, implicit in formal ex-

⁵ Financial and Economic Committee minutes, 21 Nov 1941.

⁶ Financial and Economic Committee minutes, 21 Nov 1941.

⁷ The Department of War Organisation of Industry and other parts of the political and administrative structure for economic policy-making which were devised in the latter half of 1941 are further discussed in Chapter 15.

pedients such as capital issues control of building, was accepted; and, as has been seen, problems of supply which called for the allocation of scarce commodities were met by formal and informal arrangements for rationing to the producer, an administrative procedure which was accepted as part of the needs of wartime.

Illustrative of the way in which, quite early, rationing would emerge as part of discussion initially directed at other issues was that in the Financial and Economic Committee in February 1941. Then the committee devoted all its time to taxation and the way in which the gap between revenue and expenditure might be filled, but as discussion ended, found time to agree with the chairman's views:

that the amount by which defence expenditure exceeds provision made by taxation and loans out of savings measures the amount of *additional* reduction necessary to maintain the war effort. . . . This amount of reduction is unavoidable if we are to carry out our war commitments from our own resources. If we do not get the corresponding finance out of savings or taxation, we must have inflation. But inflation is only a means of obtaining the necessary reduction in consumption, not a way of avoiding it. The main instrument for reduction in Australia must be government action. It may be:—

- (i) Indirect through taxation, which reduces spending power generally, leaving it to individuals and business firms to reduce their private spending in any way they please.
- (ii) Direct rationing or restriction of supplies of specific goods or services, chosen because the resources they use are most adaptable to war purposes.⁸

The discussion was in broad terms: the reduction of civil use of non-sterling exchange; sterling exchange; labour, particularly skilled labour; material and equipment, and the reference was as much to producer rationing as to any other administrative procedure. In the event the discussion developed into consideration of manpower and of manpower as it might be related to import restrictions; rationing was not actively canvassed, although it remained an established theoretical answer when limitation of non-essential production was mentioned.

It was in discussions of government finance that the Financial and Economic Committee really came to grips with the problem of rationing. The meeting—at the end of July—was notable as the first to discuss the new administrative arrangements, so that, having talked of government finance, and the new Department of War Organisation of Industry, the members moved naturally enough to the one course which the Government had so far not pursued. Some members considered that in certain fields rationing would become necessary at an early date; and that it would have to be tackled by taking measures at the points where shortages would develop. Petrol and tobacco were noted as being under control; limitation of tobacco supplies might have to be intensified, and it was suggested that clothing would be the next commodity which would have to be rationed to consumers. Tea, matches and liquor were also mentioned as being important items in expenditure on non-durable consumer goods and possibilities for rationing. The rationing of durable consumer goods

⁸ Financial and Economic Committee paper 29a, 13 Feb 1941.

should be effected by controlling production and establishing a rigid control of prices. (It was suggested that a heavy sales tax might be imposed.)

Because the committee's chief interest was in financial matters they went on to point out that control of the more important durable and non-durable consumer goods still left free expenditure on holidays, stocks and shares, real estate, and that a capital gains tax might be useful in regard to some of these items. But, they agreed, "one of the important problems of rationing was that of correct timing. It is difficult to know when shortages will arise but at the same time it is important to introduce the rationing before stocks have been badly depleted." The possibilities of stimulating production, particularly where local materials might be used, was not to be overlooked.

These views were reiterated, but with more precision, at the August meeting when three main types of rationing were listed: rationing of raw materials; rationing of consumer goods; rationing of supplies from producers to retailers. The first was already being partly done by the Departments of Supply and of Munitions and with the assurances of Sir Harry Brown before them, the committee considered that there was no need for them to pursue this aspect. Rationing of essential consumer goods was, however, "a most important and urgent aspect" which (putting aside petrol, so far the only item affected) "both for fiscal and supply reasons . . . appears inevitable to some extent". Plans should be prepared now, and the Treasurer should be advised to authorise the work. The important view (in the light of the unhappy experience by the Supply Department over the institution of petrol rationing, and by later rationing authorities) was that taken by Sir Harry Brown, who opposed discussion by the inter-departmental committee about who should prepare the plans, "because of the importance of keeping secret" this preparation.⁹ Rationing of supplies from producers to retailers, it was felt, offered no great urgency at the moment, although it might well become necessary later. In this connection Professor Copland

raised the question of producers who ration supplies of their own accord. For the purposes of Price Control the Prices Regulations empower the Prices Commissioner to compel delivery of goods. The Prices Office has received a number of complaints regarding rationing of supplies imposed by manufacturers and Copland suggested that no producer should be allowed to ration without having satisfied the Government that his reasons were valid and that his method of rationing was equitable. Coombs suggested that this had a connection with rationing to consumers. If supplies are distributed equitably to retailers then automatically the majority of consumers will be fairly treated (except in the case of goods which are in very short supply

⁹ The general recommendation of the committee in this regard read:

- (ii) that the chairman inform the Treasurer that direct consumer rationing appeared to be inevitable to a greater or lesser extent, depending on the nature of the Budget;
- (iii) that the chairman recommend to the Treasurer
 - (a) that plans be prepared secretly by the Customs Department,
 - (b) that the plans be prepared in close cooperation with the Prices Commissioner,
 - (c) that in preparing the plans the desirability of keeping to a minimum the number of governmental agencies handling the same problem be kept in mind;
- (iv) that the chairman inform the Treasurer that in view of the importance of secrecy Sir Harry Brown considers that the matter should *not* be referred to the inter-departmental committee (some members dissented);
- (v) that the chairman inform the Treasurer that the commodities which at the moment appear likely to need rationing are clothing and certain chemicals and drugs.

or are most essential). Copland suggested that some department should be given suitable power and made responsible for this aspect of the problem. The Committee did not think that it was urgent for the moment.

As a background for these discussions there was a memorandum available in October giving a summary of the various measures adopted for the reduction of civil consumption in the United Kingdom, most of which had been discussed in principle, if they had not been actually contemplated, by Australians.¹ And the Economic Consultant, writing in November that "favourable consideration is now being given to the possibility of achieving the war effort by direct control of resources, accompanied by rationing where reduction of civilian supplies makes some control of distribution necessary", put before his colleagues on the committee the idea of rationing by value, as a way to overcome the difficulty of individual demand for particular goods varying so greatly. The idea was that expenditure would be averaged so that each adult might be allowed to consume say, 10s worth of cigarettes; each household, say, 10s worth of furniture and household equipment. By this time, however, in the Financial and Economic Committee, at least, discussion was due to take another turn.

The occasion was the consideration of the functions of the Department of War Organisation of Industry. From this the committee turned to an endeavour to gain a picture of what actual or prospective shortages there were in order to see in what fields rationing might become necessary. The list circulated of items which were in short supply so far as munitions were concerned (for which there was a bulk rationing to the trade, coupled with a general agreement between the department and the trade as to the type of customer to be supplied) "did not suggest any severe shortages in important consumer goods" and, continued the secretary of the Munitions Department, his impression was "that the position was the same with regard to the materials controlled by the Department of Supply".

It was concluded then, that the shortage of resources must be on the labour side and that therefore the restrictions must be directed towards the release of labour for war purposes. Bridgen and Wilson confirmed that, although varying from State to State, labour shortages were acute.

The feeling of the Committee was that this made a practical solution hard to find, as politically it was very difficult to ration until there were either actual or prospective shortages of consumer goods.²

The development of rationing discussion had reached its third stage. It began as finance; it continued as a problem of scarcity; now it emerged,

¹ 8 Oct 1941; Financial and Economic Committee paper 29q. The "most important measures adopted" were summarised as:

- (a) Restrictions on imports of certain goods.
- (b) Direct rationing of supplies to consumers.
- (c) Reduction of supplies to retailers by manufacturers and wholesalers (Limitation of Supplies (Woven Textiles) Orders and Limitation of Supplies (Miscellaneous) Orders).
- (d) Control of raw materials and machinery.
- (e) Reduction of the number of manufacturers.
- (f) Control of building.
- (g) Control of factory and storage premises.
- (h) Standardisation of certain goods.
- (i) Ban on purchase of new motor cars.

² Meeting of 21 Nov 1941.

not as either of these, but as a course necessary for the release of labour from non-essential industries.

It was suggested that in order to release labour it might be necessary to ration non-essential consumer goods and thus disemploy labour in anticipation of its absorption by war purposes. It was further suggested that to obtain the labour necessary for industrial war production a direct approach might be made to trade unions, employers and employees, in order to obtain the necessary diversion. (This is not meant to imply industrial conscription.)

It was suggested that it would be necessary to compensate labour for the losses involved in the transfer.³

The committee concluded that although it was difficult to see the precise fields which it would be necessary to ration, the preparation of general plans for rationing should proceed forthwith.

It is idle to surmise how plans for rationing would have proceeded if sixteen days later there had been no attack by Japan. Menzies, speaking in the House on 6th November, put the political viewpoint succinctly, as part of a discussion on inflation

... Rationing must apply to imports and sales; it must apply to commodities whatever their place of origin. But I say that in the present state of affairs in Australia rationing would be a difficult policy to put into operation. It would be an unpopular policy; and, with the very greatest respect for my friends who now occupy the Treasury bench, and my colleagues who sat with me on the Treasury bench, I do not believe that any government will, in the present temper of public opinion in Australia, successfully attempt rationing. I say that merely to dispose, for my own purposes, of the rationing problem. I am in favour of rationing; but I do not think that we talk practical politics in Australia today when we talk of rationing as something which in itself will be the answer to an inflationary financial policy.⁴

There were signs that the rumours of rationing were inducing counter-moves on the part of business generally. It was reported that following the statement regarding the possible freezing of stocks of cloth by the Government a tailor had been offered a roll of cloth by one of the warehouses. "Was it possible that warehouses were overstocking in excess of immediate requirements?" asked the War Cabinet.⁵ The Minister for Supply assured his colleagues that the position "would be kept under review but it was not proposed to introduce rationing at present".

As in every activity the attack by Japan produced overnight an acceptance of action which until then had been postponed on a variety of pretexts, most potent that of public resistance. The Financial and Economic Committee's discussions of rationing had brought them to the view that the real problem was manpower. That opinion was now almost universal, so that for the next months the most vital factor in government decisions was, and would continue to be, manpower. The Financial and Economic Committee, at least, were not certain that "consumer rationing is the

³ Meeting of 21 Nov 1941.

⁴ *Commonwealth Debates*, Vol 169, p. 133.

⁵ Minute 1542, 5 Dec 1941.

appropriate method of tackling the labour problem while shortages of materials do not make such rationing inevitable".⁶ In the event direct rationing of consumer goods was not instituted for another six months. The Government chose other methods to ensure that the entire economy should be directed to defeating the enemy, so that the delay in using this particular weapon was less important than it might have been without the other and varied controls of early 1942.

⁶ Financial and Economic Committee paper 29x; the paper continues:

So far as the labour shortage is due to the failure of employment in civil industries to fall proportionately with production following rationing of materials, the appropriate action would appear to be compulsory rationalisation of production (amalgamation, pooling etc.) among firms affected. Even if labour shortages are absolute—i.e. arising from excess requirements of armed forces over additions to the labour force, it is probably preferable to approach the problem through compulsory rationalisation in civil industry rather than through consumer rationing.

A relatively small proportion of the productive effort in the Australian economy is devoted to the actual production of goods but rather with their distribution, financing, advertising and with the provision of tertiary services in relation to them. It would appear reasonable that before reducing the supplies of goods for consumption labour should be diverted from distribution, finance, and the related tertiary services. Before rationing clothing for instance much could be done by rationalising—

- (a) choice of varied styles
- (b) choice of retailers
- (c) luxury services provided by more expensive retailers of clothing
- (d) producers' choice of financial and other producers' services.

Conclusion.

1. Consumer rationing should not be introduced unless necessary because of shortages of materials.
2. That until such shortages of materials appear labour shortages can best be tackled by—
 - (a) as far as possible switching over existing factories to war production,
 - (b) compulsory rationalisation of firms whose output has been reduced by rationing of materials,
 - (c) drawing on reserves of labour—women, etc.
 - (d) compulsory rationalisation of other civil industry, particularly distribution and services.

CHAPTER 14

MANPOWER

DESPITE the justifiable criticism of the Department of Labour and National Service, it was the canal through which flowed increasingly the sectional demands for an organisation which would be responsible for determining the allocation of total manpower. There were to be several months of confusion before these demands issued in an authority which at last did the work for which the Department of Labour and National Service had been, in part, designed, but which, for reasons already outlined, it had not succeeded in doing. This was the shortlived but highly important Manpower Priorities Board.

Increasingly in the first half of 1941 there were complaints and reports from authorities concerned with munitions and with other war production, and with the maintenance of numbers in the Services, that there was a problem of correlating and coordinating the sum of separate commitments for labour, and that no organisation was in being for this task. There were several unrelated and to some extent conflicting attempts at investigation of the total manpower situation which added to the confusion by producing incomplete and uncorrelated estimates of demands set against available manpower, although they all reinforced the general conclusion that the stage was being reached where some authority must determine the extent to which various demands for labour could be satisfied. All these various sectional and divergent pressures drew attention to the existence of varied authorities which in total still left the vital question of manpower priorities on one side, but did raise belated questions of spheres of authority and basic principles of cooperation, most notably in the difficult relations between the Department of Labour and National Service and the State departments of Labour.

"COMPETITION FOR BULK MANPOWER"¹

In February 1941 the Treasury pressed for a review and consolidation of the whole munitions programme, various sectional expansions of which were being planned without any clear picture emerging of the total commitments. In response to this Treasury pressure an *ad hoc* committee² prepared a survey which attempted to cover demands of the Services and the resources required for various overseas orders. In relation to manpower the committee stressed the extreme difficulty of getting a clear picture of what need for labour would be involved in all these various demands, but was "strongly of the opinion" that the projected programme could "only be accomplished by the diversion of much of the national effort that is now being absorbed in meeting the ever-growing demands of the civilian

¹ From a Cabinet submission by the Minister for Labour and National Service, 6 Jun 1941.

² War Cabinet Agendum 63/1941, Supplement 1. The members were Sir George Pearce, Sir Walter Massy-Greene, Maj-Gen E. J. Milford, A. D. J. Forster, N. K. S. Brodribb, J. K. Jensen, W. E. Dunk, H. F. Yoxon. The Report was dated 23 Apr 1941.

population caused by the high ratio of employment and the resultant increased spending power. . . . The diversion would need to be of a major order".

In the discussions which followed, the Treasurer presented rough estimates of the main items in the manpower problem. The working population of Australia was placed at about 2,000,000 under peacetime conditions. By the middle of 1943 it was expected that there would be 500,000 in the armed services, while a programme for munitions, aircraft and shipbuilding of £100,000,000 a year (which was well below the total of the plans already being pressed) would require 250,000, with another 50,000 for other war supplies. That made a total of 800,000 for direct war needs, to be set against the 2,000,000. "The time has arrived," commented Fadden, "when we must face up to restriction of civilian consumption." The same theme was pursued by the Minister for the Army who spoke of the need to "cut down to the bone the use of machines and manpower for luxuries, non-essentials and anything not directly concerned with our war effort". But he further pointed out that the Manpower Committee had clearly put on the Government the responsibility of deciding on the division of labour between competing demands. It had, he said, "pointed out many times in its reports that it is merely *conserving manpower not directing it to and redistributing it among the uses which are best in the national interest*".³

Meanwhile a different sort of committee was making broadly similar investigations with similar results. This was the parliamentary Manpower and Resources Survey Committee.⁴ Anything they might have achieved by their discussion of the organisation required for manpower priorities was ruined, however, by the very sweeping nature of their administrative proposals, which centred on the appointment of an authority over all organisations that now administered labour problems in Australia, including the Commonwealth and State departments of Labour. Perhaps such a proposal was natural to a committee of parliamentarians two of whom were government members who had been outspoken in their criticism of that Government, and three of whom were members of the Opposition, but when the situation required a down-to-earth administrative machinery which would not undo the established pattern, it was even more natural that nothing more should be heard of this "dictator" of labour.

Another partial and incomplete survey of the manpower situation arose from a demand for information by the Attorney-General, Mr Hughes.⁵ The resulting report added little to the information already available but it did serve to stress the high proportion of the labour force still engaged on civil work (the report said three-quarters of all factory employees) and to raise again the question of an authority to pass judg-

³ War Cabinet Agendum 63/1941, Supplement 2.

⁴ The members when the committee was first appointed, on 21 Feb 1941, were E. S. Spooner, J. P. Abbott, E. J. Holloway, A. S. Drakeford, and J. S. Rosevear.

⁵ Rt Hon W. M. Hughes, CH. MLA NSW 1894-1901; MHR 1901-52. Min for Ext Affairs 1904. 1921-23, 1937-39; Att-Gen 1908-9, 1910-13, 1914-21, 1939-40; Prime Minister 1915-23; Min for Health and for Repat 1934-35, 1936-37, i/c Territories 1937-38, for the Navy 1940-41. B. Wales, 25 Sep 1864. Died 28 Oct 1952.

ment on the priority of different forms of employment, in this case coupled with the out-dated idea that the Tariff Board would serve. The report was considered by the War Cabinet in May, and it was symptomatic of the growing criticisms of the List of Reserved Occupations that the recent exemption of Taxation Department employees as young as twenty was brought up. The Cabinet did not at this stage go beyond the surface issue, directing that the Manpower Committee should not only reconsider the taxation case, but review the List of Reserved Occupations with a view to restricting its application. The Manpower Committee responded with a reasoned defence of its policy in regard to the list, pointing out that any drastic revision could be achieved only by crude measures. The committee claimed that to raise the ages of reservation would take more skilled men, for whom no need had been demonstrated in the Services, while on the other hand the committee denied the opposing criticism that the list was hampering production. The committee had already been discussing the wider issue which the Cabinet had passed over; their "Appreciation of the Manpower Situation"⁶ declared: "the clash of interest and demands for manpower between the fighting Services and the munitions-producing departments will remain the most contentious manpower question during the war, will develop in intensity as the war progresses and can only be coordinated by an authority independent of the two opposing groups of claimants." The committee had a clear view of the organisation it would propose. It was forthright in its belief that it should continue in existence itself, attached to the Department of Defence Coordination and with control over the List of Reserved Occupations. The additional instrumentality which it wanted was a Reserved Industries Committee, of which its chairman should be a member, to be established in the Department of Labour and National Service for the purpose of classifying businesses into essential and non-essential, and allocating labour between them.

THE MANPOWER PRIORITIES BOARD

The outcome of these various moves was a set of reports and memoranda which floated between the various Cabinet bodies without decision being made, apparently because the Prime Minister, recently returned from England, was preparing his statement on intensification of the war effort. In this an important role was predicted for manpower, but already on 6th June the full Cabinet had approved a submission on the subject from the Minister for Labour and National Service.

The argument of the submission was that the List of Reserved Occupation had very little to do with the central problem, which was described as "competition for bulk manpower". The list, it was suggested, was intended to control competition for particular types of skill and as such was not a serious obstacle to recruitment for the Services. Review of estimated demands for manpower pointed to the conclusion that heavy cuts into non-essential industry would become increasingly necessary and

⁶ Dated 27 May 1941, attached to minutes of Manpower Committee, 18 Jul 1941.

for handling this problem the existing Manpower Committee was, as it said itself, inappropriate. It was therefore urged that a "more widely representative Manpower Priority Board" should be established "to advise on the larger issues of policy". The suggested personnel was the Minister for Labour and National Service as chairman, the chairman of the Manpower Committee to represent the Services, a representative of employers and another of employees, the Director-General of Munitions, the Secretary of the Department of Supply and Development, and the Secretary of the Department of Labour and National Service, together with an executive member. It was contemplated that the board would maintain a continuous review of the overall manpower situation, act as a clearing house for sectional reports from various bodies on manpower priority questions, and control the List of Reserved Occupations, although it was intended that the Manpower Committee should still administer the application of this list. Correspondingly the functions of this latter committee would be modified so that it would advise the new board on changes in the list, would be the channel of communication between the Services and the board and in particular would examine the extent to which skilled men who had enlisted might be released.⁷

By contrast the Prime Minister's broadcast of 17th June which he described as the "prospectus of an unlimited war effort", while it was very forthright on the objectives of what would be the new Department of War Organisation of Industry, and included a number of promises intended to smooth labour relations, contained on manpower little of the precision in the scheme the Cabinet had already approved. He promised a "drastic overhaul of the Reserved Occupations List . . . greater use of the services of women . . . comprehensive marshalling of labour resources in cooperation with the States".⁸ Meanwhile, however, the Minister for Labour and National Service was proceeding with the plan approved by the Cabinet. His public announcement on 25th June consisted substantially of extracts from his submission to the Cabinet, the application of which was delayed by difficulties in securing the cooperation of the States, which were extremely reluctant to make available from their departments of Labour any officers at all.⁹ The chief bone of contention was the setting up by the Commonwealth of its own employment offices under the Department of Labour and National Service which the States regarded as a political challenge.

⁷ The submission concluded by foreshadowing assessment of the essentiality of various classes of civil industry and a wide range of measures designed to displace labour from the non-essential.

⁸ *Sydney Morning Herald*, 18 Jun 1941.

⁹ While there was something to be said for the attitude of the States, the atmosphere of relations at this stage is well pointed by a report to the Federal Cabinet—

"The Governments of the four larger States have constantly stressed—

- (a) their desire to COOPERATE;
- (b) their willingness to assist with staff under their own control;
- (c) their willingness to conform to Commonwealth policy;
- (d) with varying degrees of optimism the extent and efficiency of their own (largely non-existent) placement organisations;
- (e) their complete willingness to have the Commonwealth foot the bill;

but have strenuously resisted—

- (f) any *practical* measures to ensure that Commonwealth policy is carried out effectively and quickly."

It was not therefore until 26th July that the Prime Minister was able to announce the appointment of a Director of Manpower Priorities and chairman of the Manpower Priorities Board. The man chosen was Wallace C. Wurth,¹ chairman of the Public Service Board of New South Wales, and in the first instance the appointment was for three months only and was not at this stage accompanied by any other appointments to the board which was not fully constituted for another month.² When the board did finally meet, one problem which confronted it was clarifying its own functions and powers. It appeared from the Cabinet discussions and public announcements that its main purpose was investigation and advice on manpower questions generally. Even what appeared to be an important executive function, that of controlling the List of Reserved Occupations, was hedged about, the board having on the one hand to submit to the Cabinet its proposals for amendments to the list, and on the other hand to pass to the Manpower Committee the application of the list.

This did not sound promising. But the circumstances of the time and the personality of the board's chairman produced remarkable results. In four months of very active life the board drew the blueprint of what was to be, early in the following year, the Directorate of Manpower: the main outlines of an effective organisation, designed to achieve administrative instruments for manpower control; the machinery for the continuous flow of information which was still lacking; and it also began to discuss some of the major policy issues which were to become acute in 1942. Even its chief staff passed directly over to the Directorate of Manpower when that was established. The Manpower Directorate, when it came, was, in effect, the Manpower Priorities Board with power to act.

The organisation which the board proceeded to establish was built on the principle that general policy should be Commonwealth-wide but its administration decentralised. In each State the services of a State officer were sought as Deputy Director of Manpower Priorities and these were appointed during October. Associated with them were advisory committees so that local knowledge and local interests might be adequately considered.

The board devoted a good deal of attention to organisational problems of another sort, namely its relationship with other authorities. Important among these was the Manpower Committee, with which the connection needed to be close and intimate. The newly established and still rudimentary Department of War Organisation of Industry was expected to provide authoritative judgment on the relative importance for the war effort of different industries, while the Department of Labour and National Service, including especially its employment offices, would naturally have primary responsibility for the administration of the kind of policy the board was increasingly discussing, such as employment of women. In rela-

¹ W. C. Wurth, CMG, (1st AIF: 7 Fd Amb 1916-19.) Member NSW Public Service Bd 1936-39, chmn since 1939; Dir-Gen Manpower 1941-44. B. Mudgee, NSW, 14 Jan 1896.

² Its members were: Wallace C. Wurth, chairman; Sir Carl Jess (chairman Manpower Committee), deputy chairman; R. C. Wilson, employers' representative; P. J. Clarey, employees' representative. The first meeting was 21-23 Aug 1941.

tion to State departments the board had considerable advantages in its own personnel and the way in which its deputy directors had been recruited.

During the short life of the board much of its organisational discussion remained at the level of examination of principle and was not fully implemented until the Directorate of Manpower came into being. Nevertheless it was this discussion and the first steps in setting up the organisation planned which made it possible to bring the Directorate into full operation quickly and smoothly.

Much of the current public and parliamentary discussion of manpower had centred at this time on criticism of the List of Reserved Occupations. There were constant suggestions that the list was making recruitment too difficult and permitting much non-essential industry to continue. There was, in fact, little in these complaints but because of them the board had to consider the list, even if, in any case, it had not been a central part of the board's task to examine the suitability of the list as an administrative instrument in the conditions of late 1941. But the board was just getting ready to make alterations to the list and seeking a determination of government policy on them, when the Japanese entry into the war, and the consequent burst of emergency measures dismissed any chance of systematic consideration of the problem. Thus for example, the board had submitted to the new Minister some proposed deletions from the list, covering such things as brewing, confectionery manufacture, monumental masons, and jewellery manufacture. Instead of discussion of the general principle involved, the specific deletions were seized upon and approved by the Cabinet at once.

More important than the particular details of the existing List of Reserved Occupations was the board's preparation of plans for a new system of industrial priorities based upon British practice. The plan was that industries as distinct from occupations should be grouped in three classes. The first of these would be those where production should be maintained at the maximum, and for this purpose the new device of "protection" was suggested, meaning that any industrial establishment which was in the Register of Protected Establishments would be a closed field for recruitment, irrespective of the particular occupations or skills of the men employed. The second class would comprise industries of high importance but in which maximum production was not essential, and it was considered that a revised "Schedule of Reserved Occupations" would deal adequately with them. (The second class would include any establishments in industries of the first class which were not protected.) The third class comprised the miscellaneous group of industries which were either non-essential or in which production could be allowed to fall off very substantially. The full development of the schedule of industrial priorities and the application of the technique of declared establishments to be protected had to wait until the emergency period after Pearl Harbour was over and the new Directorate of Manpower in being, but the procedure and policy adopted by the directorate were continuous with the plans made by the board.

One of the motives which the board constantly stressed was the need to secure a continuous flow of up-to-date information before any major changes in policy were implemented. The board acknowledged the work of such statistical authorities as existed but such data "will need to be supplemented" by other information which "the board considers can only be furnished by the operations of the field staffs and of the organisation which the board recommends".

THE BALANCE OF LABOUR SUPPLIES AND NEEDS

A survey prepared for the War Cabinet showed the size of the armed forces and direct employment in munitions production at the end of June 1941 as:

	Navy	Army	Air Force	Munitions including Shipbuilding	Aircraft Production	Total
Male						
Service	18,399	327,493	48,284			394,176
Civil	3,817	4,688	1,056	31,800	12,392	53,753
Female						
Service	22	1,181	196			1,399
Civil	541	2,347	418	7,570	687	11,563
						<hr/> 460,891 <hr/>

The figures for the Services were precise enough, but munitions and aircraft production covered only government and quasi-government establishments and did not include employment in civil factories engaged on defence contracts. At this stage there were no satisfactory sources of information about employment on war work by sub-contractors, and even for direct contractors the data available did not permit division of their employment between war and civil work.

Even so the total figure for this restricted field is striking and especially so by contrast with the forecasts of a year earlier,³ when it had been estimated that by June 1942 the Services and war production in the narrow sense would require 248,284; whereas already by June 1941 the total was 460,891. In the 1940 survey emphasis had been on the needs of the forces and munitions production and this remained the general theme of the 1941 survey but with more concern about just what percentage of civil industry not covered by the survey was in reality munitions production, and to what degree other civil industry must be regarded as essential.

Despite the apparent slowness with which the war effort was being organised, which, during these last months of 1941 was the constant theme of criticism against the Government, there had clearly been a very substantial transfer of labour into direct war activity in the Services and

³ War Cabinet Agendum 43/1940. The Cabinet had directed that the 1941 survey should be in the same form as this earlier one to facilitate comparison, but there is no evidence that government discussion at any stage ran in these terms.

munitions production. No precise answer is possible to questions as to the sources from which the labour came, because the available statistics were not only usually imperfect in their own field but did not cover the whole field.

Year	MALES			FEMALES		
	Ages		Male Population	Ages		Female Population
	14-64	14 and over		14-59	14 and over	
	(b)	(b)	(a)	(b)	(b)	(a)
1938	2,430,248	2,668,813	3,487,406	2,242,768	2,616,949	3,405,677
1939	2,464,092	2,704,480	3,518,656	2,275,872	2,659,131	3,442,233
1940	2,495,748	2,740,326	3,550,208	2,304,989	2,702,046	3,480,829
1941	2,519,440	2,768,003	3,579,187	2,329,881	2,740,337	3,520,585
1942	2,540,770	2,791,149	3,607,770	2,357,811	2,775,731	3,561,423
1943	2,558,041	2,808,710	3,628,213	2,375,551	2,805,278	3,594,320
1944	2,570,537	2,825,056	3,659,689	2,391,314	2,832,557	3,636,392
1945	2,581,522	2,842,845	3,695,857	2,402,671	2,859,408	3,680,710
1946	2,587,469	2,856,281	3,731,448	2,406,417	2,875,278	3,717,155

(a) Final adjustments of inter-censal figures.

(b) Not adjusted but differences very small.

Source: Census Office, Canberra.

Some of the basic figures may be seen in the accompanying table. Estimates of total wage earners occupied in industry and the forces, taken from a contemporary report,⁴ were:

July 1939	.	.	.	2,109,000	
June 1940	.	.	.	2,289,000	increase 180,000
June 1941	.	.	.	2,547,000	increase 258,000

The Statistician believed that the main source of the increase in occupied wage earners in the first year of war had been the unemployed, and in the second year the entry into wage-earning groups of people not normally seeking wages. In more detail his estimates were:

	Increase of 1939-40	Increase of 1940-41
Decrease in unemployment . . .	113,000	50,000
Natural increase	32,000	33,000
Labour overdraft or reinforcement .	35,000	175,000

A survey of employment in factories showed that while there was a certain amount of shifting about between industrial groups, very little on balance of the increased manpower for the Services and war industry had come from the contraction of less essential manufacturing. In fact, the general trend in the accompanying table is rather of an increase in manufacturing, spread over the whole field.

⁴ To the Manpower Priorities Board.

Data prepared at the end of 1941 in the Department of Defence Co-ordination gave a broad picture of the proportionate distribution of labour at the beginning of the war and at the end of 1941. Detailed data used

AVERAGE NUMBER OF PERSONS ENGAGED IN FACTORIES UNDER EACH INDUSTRIAL GROUP

(excluding those engaged in selling and distributing)

Class of Industry	1938-39	1939-40	1940-41	1941-42
I. Treatment of Non-metalliferous Mine and Quarry Products	10,343	10,042	10,554	9,970
II. Bricks, Pottery, Glass, etc.	15,709	15,149	16,159	15,126
III. Chemicals, Dyes, Explosives, Paint, Oils and Grease	19,816	23,779	32,528	47,019
IV. Industrial Metals, Machines, Implements and Conveyances	177,677	184,469	221,075	276,113
V. Precious Metals, Jewellery and Plate	3,726	3,886	4,046	3,708
VI. Textiles and Textile Goods	46,082	50,973	57,319	60,482
VII. Skins and Leather	10,767	11,490	12,737	12,629
VIII. Clothing	86,092	87,728	89,042	88,684
IX. Food, Drink and Tobacco	83,846	87,046	91,500	94,928
X. Woodwork and Basketware	30,739	31,615	33,851	35,129
XI. Furniture, Bedding, etc.	15,287	14,655	14,827	13,331
XII. Paper, Stationery, Printing, Book-binding, etc.	39,913	40,434	40,090	38,710
XIII. Rubber	7,502	7,843	8,431	9,022
XIV. Musical Instruments	451	474	524	532
XV. Miscellaneous Products	7,727	8,325	9,212	11,443
XVI. Heat, Light and Power	9,429	9,755	8,178	8,516
	565,106	587,663	650,073	725,342

Source: *Commonwealth Year Book*

for this survey pointed to decline in this period in employment in primary industry (which was already causing concern to the Manpower Priorities Board), in banks and insurance, in the professions, and a sharp decline in employment of women in domestic service. Wholesale and retail trade showed some increase, and there was evidence of the replacement of men by women in less essential occupations.⁵

⁵ An officer who was responsible for initiating this survey and for directing its continuation on the basis of later improved data commented, some years after: "On the general point of the adequacy of the manpower data I have no doubts. It was never satisfactory. On points of detail I am very hazy. The manpower chart was prepared about December 1941 for the personal information of the Prime Minister. It was based on the National Register, good data for the forces and for Government munitions establishments, rudimentary tax data and the usual sort of guess work required to make one estimate from the pieces of several different jig-saw puzzles. I do not think that any working papers would be preserved. While this chart did represent the best estimate I could make at the time, I remember being rather annoyed when it was used beyond its original purpose. On the whole, its chief use turned out to be that other people with better facilities began to take a serious interest in the material. Later, I used the Commonwealth Statistician's monthly survey based on pay-roll tax and his so called 'Secret' surveys, making such adjustments as were necessary to allow for the fact that his data on the forces was unsatisfactory. So far as I know, the gap between 1939 and 1941 was never filled, lack of time for any but current problems being an important reason. In fact the entry of Japan into the

It was against the background of this picture of what had already happened to the labour supply which, imperfect as it was, showed very considerable transfers of labour and the drawing into employment of many who would not normally have been working, that the Manpower Priorities Board had to consider the problems of the immediate future. For this purpose it had a report of the Acting Commonwealth Statistician which, it should be stressed, was based explicitly on the assumption that there would not be war in the Pacific. The expectation was that by June 1942 the total number of wage earners in industry and in the forces would increase by approximately 240,000. This was made up of an additional 132,000 for the forces, 52,000 for government munitions works, 33,000 for private factory employment including that arising from war contracts, and a somewhat uncertain number for other employment.⁶

There was considerable doubt even about these estimates of needs, especially in the largest single item, the armed forces. In June, after the Prime Minister's return from England, the possibility of meeting the reinforcements required by the United Kingdom proposals for the future strength and organisation of the A.I.F. had been discussed in the Cabinet, where it was pointed out that these would require an A.I.F. personnel of 229,000 in 1941, and obtaining these numbers would demand recruitment over and above other service needs at the rate of 10,000 a month. The Statistician's estimate for the forces was based upon gross recruitment of 8,000 a month for the A.I.F. and 3,000 a month for the R.A.A.F. Almost simultaneously, however, the Department of Defence Coordination was preparing for the Cabinet a detailed statement of the manpower needs of the Services, reckoned upon, among other things, A.I.F. requirements at the rate of 5,200 a month. By the end of June 1942 the Department forecast that the Services and the government munitions factories together would require an additional 212,189 men and 28,627 women. The Statistician's figure, apparently for a comparable range of munitions factories, estimated an increase in the Services and factories combined of 184,000. To some extent, no doubt, the contrast could be explained by the somewhat more expansive ideas of the Services. (The service estimates excluded the need for local mobilisation which war in the Pacific would bring.) Nevertheless these larger plans, even if they were uncertain, cast considerable doubt upon the cautious optimism with which the Statistician suggested that needs could be met by June 1942 without drastic restriction of civilian production. The chief sources of the additional labour as he saw them were

war became a new base of reference, and for much of the data outside the services and munitions it was the original base."

These comments on the problem of securing accurate, complete and consistent data for a particular purpose fairly represented the situation which was duplicated in other surveys of the manpower situation undertaken in the early years of war. It does not appear possible, now, to obtain any more satisfactory picture of the manpower situation than was available at the time. The imperfections and inconsistencies of the data available at the time are an essential part of the story of the evolution of manpower policy which must always be borne in mind.

⁶ The figure given in the report, 33,000, is the same as the actual figure for June 1941, and brings the main total up to a round quarter of a million increase to be provided. It is typical of the statistical data of the period that this figure of 250,000 in the rest of the report replaces the more precise 240,000 with which the survey begins. It is not a reflection upon the quality of the statistical work but yet another illustration of the uncertainty of the data with which the work was done.

first, natural increase estimated at 33,000, a decrease in unemployment of about 30,000, leaving 177,000 to be obtained by bringing more people into the field of employment and by diverting the already employed to more essential activities.

The estimates of requirements for 1941-42 assume that policy continues in much the same way as in 1940-41, that is a gradual extension of special restriction on some kinds of civil production having the general effect of offsetting increases in other kinds of civil production. It is by no means certain that such a policy will suffice, but that hypothesis is adopted since part of the manpower problem is to determine whether future manpower requirements will necessitate either general restriction or intensify special restriction of civil industry. At the present time it is evident that there is still a considerable amount of unused capacity in industry although in some industries shortages of labour and machines are acute.⁷

Given the political conditions of August 1941 it was no doubt reasonable to make such assumptions—the Manpower Priorities Board itself felt compelled to proceed on the same basis—but the expectation that it might be just possible to meet manpower needs without a more forthright and positive policy of curtailment of non-essential industry was expressed very cautiously indeed, and the acceptance of even the moderately larger forecasts of needs put forward by the Department of Defence Coordination would at once have pointed to the impossibility of fulfilling the plans without drastic restriction. In the event war in the Pacific made speculation of this sort irrelevant.

TOWARDS A DIRECTORATE OF MANPOWER

At its first meeting in August the Manpower Priorities Board had before it extensive notes for discussion prepared by its chairman, much of which became the guiding lines of the board's subsequent activity. A key passage read:

1. It must, in making its recommendations, ensure that post-war problems are reduced to a minimum.
2. It must safeguard rights of employees by ensuring that expedients to obtain the maximum war effort which, in normal times, are inconsistent with the preservation of the security of employees, are not used to excess. For example it must ensure that adequate safeguards are imposed upon the introduction of women into industry normally reserved for males.
3. It must ensure that full use is made of the unemployed.
4. It must recognise that freedom of movement is retained to employees and that service in the oversea forces is voluntary.

This might be regarded as a neat summary of the general attitude of the preceding eight months reflecting the state of mind of the Government and the Department of Labour and National Service in that period. Striking in its contrast is the view of the board three months later when it declared:

The programme of work which the board is following step by step in its deliberations and investigations is:

⁷ Memorandum on Total Manpower (Australia) prepared by Acting Commonwealth Statistician, 18 Aug 1941, for Manpower Priorities Board.

1. Full utilisation of the unemployed;
 2. The rural labour problem and coordination of call-up;
 3. The problem of transfer from non-essential industry;
 4. The utilisation of women;
 5. The utilisation of manpower in the forces and industry;
 6. A further review of total manpower;
 7. Methods of reducing present turnover of labour which results in dislocation of production programme;
 8. The influence of wages on the manpower problem;
 9. The influence of external commitments (oversea contracts etc.) on manpower.
- Together with any matters of incidental and contemporary importance these will be the subjects of successive reports.

The main preoccupation of the board at the present time, however, is to inaugurate, through the Departments of War Organisation of Industry and of Labour and National Service, a scheme for the protection of establishments and the definition of non-essential industries so that new principles can be laid down for the administration of manpower policy.⁸

Much more had happened than three months' work by the board. There had been a change of government and it was no longer important (to take one key point) that manpower policy should be designed to placate Labour in Opposition. Although full knowledge of the development of the Pacific situation was still confined to the inner Cabinet and the military strategists, the grave risk of attack on Australia was sufficiently appreciated to give new urgency to discussions of manpower. Nevertheless the central factor in the change in these three months is the work of the board itself.

It had carried examination of the total manpower situation to the point where, despite the incompleteness of data, it was evident that an overall shortage was already presenting itself and would become immediately serious if war in the Pacific made any substantial addition to commitments. References to utilisation of the unemployed now had a different significance: in August such references still meant not disemploying labour while there were yet unemployed; in November they meant that if the bulk manpower problem were to be solved the unemployed pool must be drained as dry as the skills and qualities of the unemployed would permit. The utilisation of women in August was something which could be considered only with appropriate safeguards; in November the question was how to overcome the obstacles to the fullest possible utilisation of women. In August it was assumed as axiomatic that freedom might be retained to employees, whereas in November apart from concern about the difficulties of coal production, the board was arguing that a manpower crisis in rural labour was imminent. The appropriate line of policy, it was urged, was to restrain the Services and the munitions organisation from further depleting the rural labour force (which implied some restriction on the workers themselves) and to divert women to munitions production wherever they could satisfactorily do the work.

The keynote of the change is the last sentence of the statement quoted. On the one hand the board fairly saw the major problem as that of cutting down all non-essential industries in order to displace labour for war use.

⁸ Report of 5 Nov 1941.

They were looking to the activities of the Department of War Organisation of Industry and their own plans for a new system of reserved occupations to achieve this. On the other hand was the problem of the most effective use of labour which was drawn into essential work of one sort or another. The board's proposals for a register of protected establishments, examination of the utilisation of manpower in the forces, and the raising of the question of wages in relation to manpower problems were all part of the same pattern of thought. There was implicit in all this the policy and methods of the Directorate of Manpower. It is idle to speculate what might have been had Japan not entered the war and no doubt the shock of that entry and the fear of immediate and terrible war are the more obvious explanations of the rapidity with which the directorate was brought into active existence. But in a more fundamental sense there is a continuity of thought and policy between the board and the directorate which goes deeper than might be suggested by the transfer of key staff.

CHAPTER 15

THE ECONOMY ON THE EVE OF PEARL HARBOUR

IN measuring the dimensions of the war effort at the point it had reached in the latter half of 1941, it is convenient to concentrate upon global figures of the distribution of national expenditure and broad figures of population and its employment. Together these figures summarise in rough outline the degree of achievement of the economy as a whole. The accompanying table of national expenditure is extracted from the *White Paper on National Income and Expenditure 1947-48*.¹ A number of the

	£ millions				
	1938-39	1939-40	1940-41	1941-42	1942-43
Net Expenditure on goods and services—					
Public Authorities					
Administration	24	25	25	27	27
Education, health, repatriation, &c.	22	22	23	23	25
New works and maintenance	56	55	45	37	28
War	13	50	170	308	537
Total	115	152	263	395	617
Financial enterprises	9	9	10	10	10
Exports less Imports, &c.	18	18	4	6	22
Gross private investment	140	150	95	85	30
Personal consumption					
Wages and salaries paid	13	13	12	11	7
Gross rent of dwellings	92	96	100	104	104
Net tourist expenditure, &c.	4	1	—	—	1
Cost of personal insurance business	5	5	6	6	6
Other goods and services	553	581	620	666	661
Total	667	696	738	787	779
Gross National Expenditure	949	1,025	1,110	1,283	1,458

figures, as is obvious from inspection, show no significant change. Public expenditure on new works and maintenance was maintained through the first complete war year but fell sharply in 1940-41. (It should be noted that the figures are for financial years. This means that movements between 1940-41 and 1941-42 include both changes in the second half of 1941 and

¹ *Parliamentary Papers* 1948, No. 4.

This particular issue has been selected as the last in which a complete series of figures for each of the war years appears. In successive issues of the national income figures there have been various adjustments, and it would seem that this is the latest revision where one can get figures for all the war years on a comparable basis.

the much more dramatic changes of the first half of 1942.) Gross private investment, after a modest rise in the first year, fell very heavily in 1940-41 and continued to decline. War expenditure, of course, dominates the public finance figures and jumped from £50,000,000 in 1939-40 to £170,000,000 in 1940-41. (These figures are actual expenditure measured after the event, not authorised expenditure.) This increase in expenditure on the war was not merely achieved without curtailment of living standards, but was accompanied by an increase in those standards as measured by the total value of personal consumption. Some modest amount of that increase is a mere reflection of the rise in prices. The C Series index of retail prices, the best available measure, though far from an ideal one, for these periods moved as follows:

September Quarter 1939	.	.	.	916
December Quarter 1939	.	.	.	926
December Quarter 1940	.	.	.	986
December Quarter 1941	.	.	.	1029
December Quarter 1942	.	.	.	1122

There was, however, a rise in total consumption measured in real terms. In short, the Australian population though they were at war and their war effort had become one of respectable proportions had not yet suffered in terms of living standards.

These general impressions are borne out if one considers war expenditure, personal consumption and total taxation relative to total national expenditure:

Percentages of Gross National Expenditure

	War Expenditure	Personal Consumption	Total Taxation
1938-39	1.4	70.3	14.6
1939-40	4.9	67.9	15.5
1940-41	15.3	66.5	17.8
1941-42	24.0	61.3	19.9
1942-43	36.8	53.4	21.1

War expenditure at 15.3 per cent of total national expenditure was far above the 1.4 per cent of the last pre-war year, but it still did not constitute a serious burden, although from other points of view it was not a negligible performance. It was, however, well below the corresponding level for the United Kingdom. Expenditure as a percentage of total national expenditure in the United Kingdom was:²

1938	.	.	.	7
1939	.	.	.	15
1940	.	.	.	43
1941	.	.	.	52
1942	.	.	.	52
1943 (maximum)	.	.	.	55

² These figures are taken from W. K. Hancock and M. M. Gowing, *British War Economy*, pp. 75 and 347. Apart from the fact that the English figures are for calendar years there are differences in the exact basis of the figures which would invalidate any very narrow comparisons, but the general contrast is legitimate.

These percentages like other national comparisons (the Australian percentage of war expenditure to total national expenditure was at this stage above the United States, Canada and Japan, and exceeded only by the United Kingdom and Germany) cannot be the basis for any moralising judgments about relative war efforts. The United Kingdom was in the front line, while Australia was still only threatened by Japan; it was vital to the United Kingdom that Australia should continue to produce wool and many other products for export which do not appear in figures of war expenditure. In short, the "appropriate" percentage for Australia would have been well below that of the United Kingdom. What it is legitimate to conclude, however, is that war as yet had meant no serious burden on Australians as individuals, though, as the future was to show, acute national danger would produce a readiness to accept the sacrifices of a much higher scale of war expenditure. That there was no serious burden is reinforced by the percentages relating to personal consumption and total taxation. By 1941 personal consumption had fallen only slightly as a percentage of total expenditure and in absolute terms it had risen. Total taxation was still modest in relation to national income when compared with the pre-war figure in Australia or with overseas levels.

An alternative measure of the scale of the effort up to the time of Pearl Harbour is the distribution of the work force. The figures in the accompanying tables are derived from almost contemporary sources.³ In the case of males what stands out is the fact that the increase in the proportion occupied was the chief source directly or indirectly for the expansion of the Services and the increase in war production, coupled with a heavy diversion of labour from rural industry. In the case of women the chief source of expansion had clearly been the drawing into employment of women not normally occupied, and on balance most of these had gone into the Services and war production not, except in rural industry, to provide a large net replacement for men. Overall the picture in financial terms is repeated by these occupational data. The total war effort appears as substantial, but not yet on a scale to impose serious restriction on peacetime living standards.

That part of public opinion which was vocal did not regard the scale of the Australian war effort as good enough. Critics of the Government were apt to fasten upon what they regarded as specific shortages, or to take refuge in generalised accusations of inadequacy. (They were still capable of demanding a total war effort while they attacked petrol rationing.) These questionings and criticisms were focused by the Prime Minister himself when, fresh from his visit to the United Kingdom, he demanded in his speeches of June and July 1941 an "all-in" war effort.⁴

³ *Facts and Figures of Australia at War*, No. 1, June 1943, "prepared by officers of the Commonwealth Bureau of Census and Statistics and the Commonwealth Department of Information in collaboration".

Some modest correction of these figures would now be possible; but a number of the key ones—the estimates of employment on defence work outside government establishments in particular—are perhaps best left in terms of the best guesses of the time.

⁴ See P. Hasluck, *The Government and the People 1939-41*, in this series.

MANPOWER

	At Outbreak of war in Europe	At Outbreak of war in Pacific
All Males, 14 years of age and over	2,705,000	2,780,000
Occupied Males (in Forces and Employment)	2,105,000	2,408,000
Males in Direct War Work (Forces and Production)	26,000	554,000
Occupied Males as percentage of all Males 14 years of age and over	77.8%	86.6%
Males in War Work as percentage of Occupied Males	1.2%	23.0%
Males engaged in:—		
Defence Services (including full-time V.D.C.) (a)	14,000	431,300
Government and semi-govt. munitions, ship- building and aircraft works	11,000	59,700
Other defence work in factories (approx.)	(b)	100,000 (c)
Civil production in factories (approx.)	400,000	376,000
Rural Industry	500,000	395,000

(a) Gross figures, which include discharges, deaths, missing, and prisoners of war.

(b) Not known, but extremely small.

(c) Assumed. No records available.

WOMANPOWER

All women 14 years of age and over	2,659,000	2,755,000
All occupied women (not including women engaged in unpaid home duties)	644,000	738,000
Women in Direct War Work (Forces and Production)	1,000	74,800
Occupied women as percentage of women 14 years of age and over	24.2%	26.8%
Women in Direct War Work as percentage of occu- pied women	0.2%	10.1%
Women engaged in:—		
Defence Services (a)	—	3,600
Government and semi-govt. munitions ship- building and aircraft works	1,000	11,200
Other defence work in factories (approx.)	(b)	60,000 (c)
Civil production in factories (approx.)	149,000	128,000 (c)
Rural industry	20,000	25,000

(a) Net figures, excluding discharges.

(b) Not known, but extremely small.

(c) Assumed—no records available.

Within the narrower field of economic policy he accepted the diagnosis of his advisers that what was required was efficient machinery for the higher direction of that policy. At the Cabinet level his programme was the creation of an Economic and Industrial Committee of Cabinet, com-

"BLESS 'EM ALL!"



Armstrong in Argus (Melbourne), 15 Nov 1941.

prising the Treasurer as chairman and the Ministers for Supply and Development, Commerce, External Affairs, Health and Social Services, Trade and Customs, Labour and National Service, and for two new departments, Transport and War Organisation of Industry. The Department of Munitions and the new Department of Aircraft Production were not, it will be noticed, included. For this reason the further development urged by the secretary of the Department of Defence Coordination, Mr Shedden,⁵ of a Production Executive of the committee, would have raised awkward problems. It must include, as he proposed, Munitions and Interior (then responsible for works) which were not represented on the committee. Moreover Production Executive would have been subject to the committee which, in practice, exercised little final authority. When the Curtin Government took over the name of Production Executive it applied it to a body resembling in constitution the Economic and Industrial Committee, but with more effective powers of decision.

The committee's three months of life from early July were perhaps too short and too much shadowed by the political crises for the device to show how it might have worked. It was not in principle different from the original Economic Cabinet, and the formal record, if briefer, was much the same, although the impression is that it was beginning to make a more workmanlike approach to its task. It discussed few major issues and made no vital decisions. When a question of financial policy (arrangements for the £71,000,000 loan conversion due in November) came before it the matter was remitted to the full Cabinet. The Production Executive of the Labour Government had a different history in vastly different conditions, which indicates that it was not the organisation which was unworkable.

In another respect the machinery created on this occasion resembled the earlier experiment which had failed. This was in the appointment of Professor Copland as Economic Consultant to the Prime Minister, for which purpose he was relieved, temporarily, of his responsibility for price control.⁶ The similarity in this case was purely superficial. Copland was already in the framework of policy-making. His position as Prices Commissioner had ensured continuing contact with senior administrators in all those fields into which price control reached. Moreover he knew well all the leading economists in senior posts: people such as Wilson in Labour and National Service, Brigden in Supply, Coombs⁷ in the Treasury, and particularly Giblin the chairman of the Financial and Economic Committee. Menzies respected his knowledge of economic problems and his capacity for adapting economic principles to practical politics; their association on this basis went back to pre-war days. Of all the people who might have been available he was in these respects the best equipped

⁵ Sir Frederick Shedden, KCMG, OBE. Sec Defence Committee 1929-36; Sec Dept of Defence since 1937; Sec. to War Cabinet 1939-46. B. Kyneton, Vic, 8 Aug 1893.

⁶ Technically the appointment took effect from 21st July 1941, although it appears to have operated informally earlier, and to some extent was a formalising of the personal relationship between Copland and Menzies which went back much further.

⁷ H. C. Coombs. Economist to C'wealth Treasury 1939; Dir of Rationing 1942; Dir-Gen Post-War Reconstn 1943-49; Governor C'wealth Bank since 1949. B. Kalamunda, WA, 24 Feb 1906.

to fulfil the function of economic consultant which, it should be noted, was not identical with the task given to Fisk. Copland was not secretary to the Economic and Industrial Committee, although it was presumed that he would attend and participate in its meetings; nor did he have the task of directing economic coordination. (He did, in pursuit of his primary function, put forward plans for administrative machinery for achieving coordination.) Nevertheless it was a reiteration of the Prime Minister's faith in the single expert, with, this time, the justification that the function *was* one for a single figure and one which needed doing.

In foreshadowing his appointment the Prime Minister described Copland's role as "an important liaison function", between the Economic and Industrial Committee and himself.⁸ In practice Copland's performance was better described by Menzies' reference to a "general advisory function close to myself".⁹ For it was especially in providing a link between the Prime Minister and senior administrative people that Copland excelled. A Prime Minister at war, and beset by political difficulties within his own party, faces the daunting problem of equipping himself to make satisfactory judgments on economic policy. It is entirely beyond the capacity of any Prime Minister to digest all the details so that he may make a really individual decision. Yet it is of the nature of economic policy that on the one hand, more than most other matters, it has to be "sold" first to his political colleagues and then to the electorate, and on the other hand it is rarely separable into compartments which are the exclusive concern of only one department. Even within the governmental structure, therefore, the normal experience would be of conflicting policy proposals and of conflicts over any particular proposal. One way at least of approaching this responsibility is to accept an adviser and interpreter whom one believes one can trust, and then to trust him.

Menzies' programme for an "all-in" war effort provoked a number of proposals concerning the actual administrative organisation for coordinating economic policy. These came from various sources and to some extent covered the same ground. It is not worth while attempting to trace in detail the interrelations of these proposals, nor the reasons why most of them came to nothing. Shedden's scheme for a Production Executive has already been noted; Copland's proposal for a committee of heads of relevant departments, which would, incidentally, have absorbed the now not very active Seaborne Trade Committee, met with little favour when reviewed by the Financial and Economic Committee. What remained after all the discussion was the Department of War Organisation of Industry, whose Minister had been appointed on 26th June 1941, and whose Director had early in July agreed to undertake this new task, at the same time continuing his work as Coordinator-General of Works.

The story of its operations has been traced in an earlier chapter. What stands out in that record is the difficulty in the concept of a department whose functions implied that it would coordinate the work of other

⁸ Broadcast of 6 Jul 1941.

⁹ Letter to Minister for War Organisation of Industry, 30 Jun 1941.

departments, but which was not equipped with overriding executive authority. The Prime Minister showed himself aware of the problems here, and his solution was that the department should be numerically very small, and should be attached to the Treasury. "I feel," he wrote to the Minister for War Organisation of Industry, "that it might be difficult for a junior Minister to issue, in effect, directions to other departments without the authority of the Treasurer behind him." What the Prime Minister does not seem to have appreciated was that not even the authority of the Treasury could make effective such "directions" addressed to fellow ministers in relation to their own fields of authority. This was, in the last analysis, the central problem of integrating the policies of a number of departments, a problem never fully solved during the war, and perhaps one that could never be fully solved. The Curtin Government's reorganisation of the Department of War Organisation of Industry freed it from the restrictive influence of its attachment to the Treasury, but perpetuated the same notion of one department being charged with the responsibility for modifying in some respects the activities of other departments. This is something which, if it could not be achieved by agreement, could only be achieved by political direction at the highest level: in effect by Cabinet decision.

The change of government on 7th October 1941 did not affect the diagnosis that what was required was efficient machinery for the central direction of economic policy, nor did it seriously change the nature of the solution proposed. At the level of administrative planning the same advisers were accepted and trusted by the new administration.

The scheme for higher direction on the economic side of the war effort, as it took shape in November 1941, was pictured in a contemporary diagram reproduced here.¹ Even at the time the picture was not an accurate representation of intentions. Production Executive appeared in the diagram as a Cabinet of equal rank with the War Cabinet. Despite the ambitions of some of its members it was never intended that this should be the case, as the Prime Minister insisted more than once,² although many of the relevant documents and some public announcements could have justified the opposite conclusion.

Primarily, I have arranged for the Production Executive to be set up because of the need of a settled policy and a workable plan in regard to: (a) manpower; (b) production resources; and (c) financial resources.

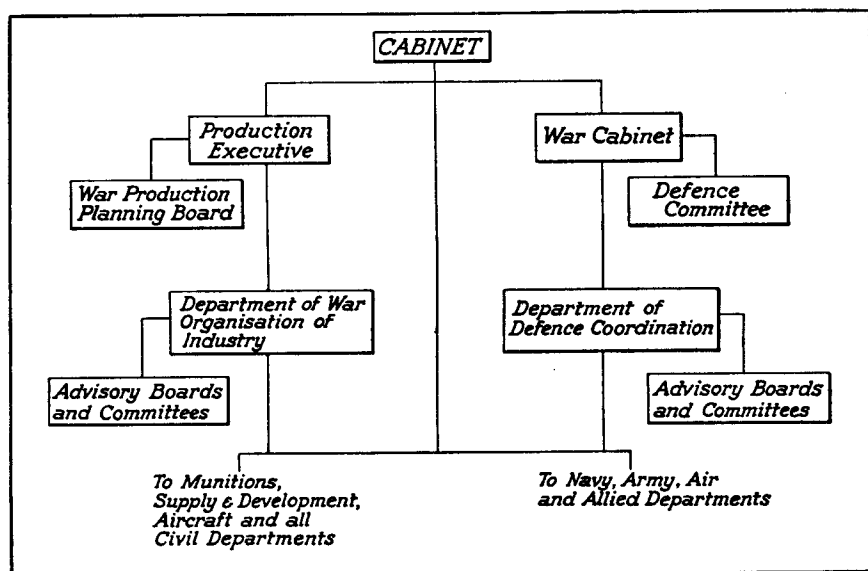
A survey will be made to assess, as accurately as possible, Australia's capacity to attain the objectives we have set as a nation and to estimate, before further new commitments are undertaken, the margin (if any) that exists in the attainment. Higher machinery is needed to give effect to war production policy, involving the allocation of raw materials, production capacity and manpower. It is proposed that the Production Executive should function in relation to the economic effort much as the War Cabinet functions in respect of the war effort of the Defence Services.

¹ From the first agenda of the War Production Planning Board (November 1941).

² For a discussion of the exchanges between the Prime Minister and the Minister for War Organisation of Industry see P. Hasluck, *The Government and the People 1939-41*.

I propose that the executive Minister (Mr Dedman)³ shall have a committee created under him to comprise the Director-General of Munitions, the Director-General of Supply, the Director of Manpower Priorities and the Director of War Organisation of Industry, who, as indicated earlier, will be the chief executive officer of the Production Executive (Mr D. McVey).⁴ This committee will have power to co-opt other Ministers or officers on any aspect affecting another department.

It is proposed that, in regard to manpower, the Production Executive shall coordinate the work of the Services Manpower Committee and the Manpower Priorities Committee of the Department of Labour and shall ascertain the requirements of the Services, the needs of industry and the designation of essential and non-essential industries. This will be done with full regard to future commitments whether of a services or industrial nature.



The Production Executive will be charged with handling all the co-related factors which must be taken into account when new commitments, or extension of existing commitments, are contemplated. These include raw materials, manufactured products, power, light, transportation services, and manpower, as well as the requirements of the civil population located in or about the sites of Defence projects. In a phrase, the Production Executive will relate productive capacity and production to the requirements of the Services.

Another phase of the Production Executive's work will be to examine the causes of delay in attaining objectives for which a definite date was set. That involves such factors as machine tools, materials, labour and industrial troubles.

On the financial side, the Production Executive will ensure that urgency of execution of a project is blended with regard to economy. The calling up of men

³ Hon J. J. Dedman. (Border Rgt Gallipoli and France 1915-17; Indian Army 1917-22, Capt.) MHR 1940-49; Min for War Organisation of Industry 1941-45, Post-War Reconstn 1945-49, Defence 1946-49. B. Newton Stewart, Scotland, 2 Jun 1896.

⁴ Sir Daniel McVey, CMG. (1st AIF: AFA 1915-19.) Dir-Gen Posts and Telegraphs 1939-46; Dir War Organism Industry 1941; Sec Dept Aircraft Prodn 1942-45; Chmn, Man Dir, S.T.C. Pty Ltd 1946-49. B. Falkirk, Scotland, 24 Nov 1892.

for duty and training must be constantly under review, both from aspects of cost and the diversion of manpower from productive to unproductive ends. That will be done, not so much by acting as a further reviewing authority but by ensuring that the aspect of economy is primarily regarded in the respective departments.

These terms of reference, announced by the Prime Minister on 6th November, were, however, even then not to be taken at face value. It took him some weeks to feel his way to a definition of the role of Production Executive and its relation to the War Cabinet. On 18th December Curtin revised the statement of the relations between the War Cabinet and Production Executive to read:

The War Cabinet is responsible for war policy and for determining the size and scope of the Commonwealth's war effort. Subject to this the Production Executive will function in relation to the industrial and economic effort much as the War Cabinet functions in respect of the war effort of the defence services.

Of the three fields specified in the statement of 6th November, manpower, production, and financial resources, the third was severely circumscribed by the Prime Minister ruling that financial policy was not within the scope of Production Executive. (The Treasurer was not a member in the original plan, but joined on 12th December 1941.) So far as manpower was concerned the explanatory paragraph did not fully define the reality. Broad manpower policy was still primarily a matter for the War Cabinet or the full Cabinet. Production Executive's role was that of organising its application to the civilian economy. Moreover in any field, policy that was politically contentious involved the whole Cabinet and Production Executive could at best make recommendations.

During its life, until the end of the war, Production Executive, therefore, appeared to make few final decisions on major policy issues, but it would be misleading to imply that it was simply a subordinate body, dealing with details. In many instances it was in form merely working out the application of policies decided elsewhere, but in fact, as for example with restriction for non-essential production, the policy was so sweeping and general that it only acquired content in detailed application. Again, especially in the hectic early months of 1942, questions for decision came thick and fast as immediate sectional problems, and the "policy" was the total structure that was built up, as with the broad pattern of control of production for civilian purposes. It was not only not of formal Cabinet status, but it was not an Economic Cabinet. Its primary responsibility was production, and on the whole it kept within its province.

The "committee" in the November announcement, in effect the War Production Planning Board which takes so prominent a place in the diagram, comprised the Director-General of Munitions, the Coordinator-General of Works, the Chairman of the Aircraft Production Commission, the Secretary of the Department of Supply and Development, the Chairman of the Manpower Priorities Board (that is the Director of Manpower Priorities) and the Director of War Organisation of Industry. Its charter was "to advise the Production Executive of Cabinet upon the initiation

and maintenance of a consistent policy for the maximum production from industry for both war and civil needs".

In membership and function it embodied the same idea as Copland had put forward in his scheme for a heads of departments committee. Its one unsatisfactory meeting at the beginning of December achieved little more than the registering of some of the difficulty inherent in its composition and functions, not least the implication that the members would surrender their separate independence to the authority of the board, a surrender which its constitution ensured could only be voluntary. War in the Pacific submerged its members in departmental duties and the board was allowed to lapse.

In the event, a substantial part at least of its broadly defined functions was covered by the reorganised Department of War Organisation of Industry. This was, in the new Government, separated from the Treasury under an independent, if junior, minister. The assumption concerning the department as first established, that its staff would be little more than the personal staffs of the minister and director, was replaced by the assumption that though it should still remain a small organisation by comparison with other departments, it would be a department in the full sense. In part a reflection of this was the withdrawal of Sir Harry Brown; his part-time appointment was replaced at the beginning of November 1941 by the full-time directorship occupied by Mr McVey until his transfer to the Department of Aircraft Production in January 1942.⁵

The sphere of the department was re-defined:

The relationship of the Department of War Organisation of Industry to other Commonwealth Departments associated with the provision of supplies for war or essential needs will simulate that of the Department of Defence Coordination to the Service Departments.

The Department of War Organisation of Industry will be a directive and coordinative, rather than an executive, authority and will utilise the respective civil Departments to the maximum extent for necessary investigations and the execution of approved plans. It may, however, be required to discharge executive functions associated with the war organisation of industry where there is not already an appropriate Commonwealth instrumentality available to carry out the duties and if it is more convenient to discharge these duties from a central Department than to distribute the functions among other Departments.

This general statement was elaborated at some length with emphasis upon the task of investigation. This stress was appropriate while the department was seen as working as the secretariat to the War Production Planning Board, and, when that board failed to function, acquired a different significance in the department's activities in 1942.

The department was barely established in its new form when war in the Pacific began, and in the event the department's somewhat stormy career departed substantially from the programme in ways which will

⁵ McVey's transfer was separated from the appointment of his deputy, G. T. Chippindall, by a curious episode when for several weeks the department was supposed to be controlled by a board of four. In practice this board, whose formal status was never clear, worked as if the three members, other than Chippindall, all senior officers of the department, were a committee to advise Chippindall as *de facto* head.

be followed in detail in the second volume. Its coordinative activities, though not unimportant, were never comprehensive, not least because older established production departments were never willing to give more than partial or temporary acceptance to this function. It was led to undertake a varied range of detailed administrative activities, especially those of an unpopular nature, which absorbed its energies and prejudiced consideration of its planning activities. Those activities were most effectively pursued when most closely associated with its role as secretariat for Production Executive. It was in some ways fortunate that the impact of the Pacific war made other departments, in the weeks following 8th December 1941, much more ready for the time being to accept the principle that their several activities must be integrated, much more willing to accept help in immediate problems from any quarter. These three or four months gave the department an established, if severely limited, status as one which had certain responsibilities for pursuing coordination and integration of the activities of other departments which no previous organisation had had, and which it could not have achieved except in such circumstances. Nevertheless it remained true that most of its coordinative activity was effected by the diplomatic processes of persuasion and negotiation, processes in which, presumably, credit or blame should be shared among all parties. When conflicts among departments were serious they still had to be resolved either by Cabinet action, or by the establishment of *ad hoc* committees, which were very common in 1942-43.

The search for political and administrative machinery to coordinate the war effort as a whole was driven by the need to resolve three central problems: of manpower, finance and curtailment of living standards, for that was what was implied by phrases such as restriction of non-essential activities, or control of civilian consumption.

The manpower problem by this time had two faces. On the one side there was the need to find more labour, not labour of this or that specific skill but labour as a total quantity. One clear possible source was a more effective use of women whether in the auxiliary Services, in munitions production, or in replacement of men in civil activities. But the women were not enough and it was becoming painfully clear that the total demand for labour could only be satisfied by positive action to cut "non-essential" production. The other face of the problem was that, even with these reserves of labour still to be exploited, it did not seem that all war commitments could be met in full; in other words that there must be some order of priorities among even what were regarded as essential war activities. The economy had passed, as it were, from the reserved occupations stage into the priorities stage. This was the theme stressed by the Manpower Priorities Board whose very name indicated recognition of the problem; it was fortunate that the board had worked out the necessary machinery just at this period when the shock of Pearl Harbour with the consequent great increases in the demand for manpower made it possible to set the machinery in motion forthwith.

The early concern of the Financial and Economic Committee with inflation as a future problem had changed to anxious examination of politically practicable ways of checking what was now regarded as an immediate threat, a threat recognised more generally than by that committee. Finance was primarily a political problem. The non-Labour Government's tenuous majority, and its growing disintegration, had made it impossible, despite avowed intentions, to impose taxation high enough to make any serious difference to living standards. It had not succeeded in bringing the States to a sense of the financial implications to themselves of a full-scale war effort, while it found it necessary to implement even its arrangements for control of bank finance by formal agreement, not by imposing control.⁶ It was apparent even to those who only six months earlier had found such ways of thought foreign, that finance was not a thing in itself, but a technique of control. More precisely, the financial problem was now unambiguously one of using monetary techniques for restricting peacetime demands on scarce resources. Taxation must be designed to deprive taxpayers of purchasing power to the point where their living standards were reduced. Control, whether of bank lending or of other forms of capital transaction, must have the primary purpose of curtailing competition from non-essential activities for materials and equipment. Financial relations with the States must on the one hand facilitate federal taxation of individuals at high rates, and on the other contain the spending of the States themselves.

What was clear in the financial field was the obvious conclusion which obtruded itself however the problems of the economy were approached. For all practical purposes unemployed resources and especially unemployed labour had all been drawn into use. Everything which the Government wanted, even to carry out projects already approved, still more to expand its commitments, was scarce. The key shortage, it could not be stressed too much, was labour, but the same was true in varying degrees of all resources required for war production. The moral was unpleasantly obvious, that the maintenance of the war economy on its then planned scale demanded cuts in standards of living.

In the latter half of 1941 this was the dominating issue for the war economy. On the whole Australians had not suffered economically by two years of war, and for many of them it had meant a substantial rise in living standards. They had been saved so far from the ultimate economic implications of a major war, by the speed with which government war plans, whether for the armed services or for war production, had developed, by the political weakness of a government without an effective working majority, by the stress on export production, itself dictated by the Australian place in the total Allied economy, by American aid, to some extent

⁶ The spectacle of the Treasurer not only reaching "agreement", but giving publicity to the fact, provides an example of the unexpected. The banks were notoriously the villains in Australian political discussion (their most recent lampooning had been in the 'thirties); and association or negotiation with them was at any time the most probable point of attack by political opponents. Questions of the rational judgment by electors aside, it must have been known that a sizable proportion of the electorate would look with suspicion on anything that savoured of "dictation" by "the banks".

directly, but more indirectly to Britain, and by the delay in Japan's entry into the war. By late 1941, however, it was plain that the time of reckoning had come, that however it was achieved there must be restriction and curtailment of what were euphemistically called "non-essential" activities.

The contemporary dissatisfaction with the Government allowed it little credit for what it had achieved and paid scant regard to the problems of time in the organising of a war economy. It has been said that it is fashionable to attribute to the Hundred Years' War many things that should be attributed to the hundred years. When Labour took office it was in the fortunate position that many things which required time to bring about had been started, however incompletely they might yet have been achieved. To take one leading example: the munitions industry as it was by late 1941 represented a major industrial development which should have appeared more impressive if set against the state of Australian industry in 1939. It was big in the mere size of its activities; less obvious, but perhaps more impressive, was the extent to which these developments involved techniques and standards which in 1939 must have looked as if they were not within the capacity of Australian industry. Any major engineering development requires time that is measured in years rather than in months to bring to fruition, and by the end of 1941 the Australian munitions industry was already in a position to deliver weapons and equipment in quantity. It is equally true, even if not so easily recognised, that the building up of organisations for administration and the learning of new techniques of unfamiliar control over the economy, take time. Politically Australia was not ready for the Directorate of Manpower until after Pearl Harbour; administratively that organisation was able to function as it did because of the two years' experience which lay behind. The war demanded a great expansion of the Commonwealth public service. Before the war the Commonwealth activities which absorbed large numbers were the Post Office and departments such as Trade and Customs. Wartime activities demanded not merely additional numbers but were activities of a kind unfamiliar to anyone in Australia. Even those public servants who transferred to the new fields had to learn a new job, while those recruited from industry and commerce and the professions were even more completely amateurs. The learning process, the getting used to the nature of wartime problems, was something which required time. Particularly it took time when this involved not so much learning of new techniques as the learning of new attitudes; for example, the business man called upon to control an industry with which he was familiar, but to control it often against the interests of private enterprise. And in a more general sense Australians as a community took time, time to get used to being at war. A community which had only known war as a distant thing did not find it easy to accept severe increases in taxation, control over freedom to choose one's job, or cuts in living standards, until the slow cumulative process of experience had shown that major participation, even in a distant war, demanded sacrifices. The extent to which politically failure to impose demands can be attributed to an invalid assess-

ment by the Australian Government of the Australian people is discussed elsewhere,⁷ but its importance in the economic story lies in the fact that while economic policy might demand certain drastic alterations to provide that effort capable of winning the war, those alterations could not be achieved until it was politically safe to impose them, or—and this happened in the Australian case—until a sufficiently immediate national danger appeared.

By late 1941 it was no doubt true that only a change of government could produce effective action. That had waited upon the ability of the Menzies-Fadden Government to resolve its own political weakness. The Government rested upon a precarious majority; Labour in Opposition was, to say the least, not helpful; the electorate combined an increasing disposition to demand action with vocal opposition to specific action which meant sacrifice to any organised section. The party complexion of the Government was not of great significance; a change was the prerequisite for action.

That this is a fair assessment is supported by the way the Curtin Government, in the short weeks that remained before war in the Pacific, maintained, on the whole, the main lines of policy it inherited. It is true that fundamental recasting of the budget at short notice was not practicable, but the differences between the Fadden and first Chifley budgets were not vital, and much less than might have been expected after two months' review of a financial policy which was the ostensible reason for the change of government. The broad features of the political and administrative reorganisation planned in June and July were taken over and carried through by the new Government. In the vital field of manpower the work of the Manpower Priorities Board was continued and the first steps towards implementing its recommendations were planned.

It is idle to speculate as to how Labour policy might have evolved had Japan not moved, but it is a fair comment that by the end of November no major policy change had emerged. Thus far Labour, in the economic field, had shown the industry of the new broom, and the energy of a government not involved in past weaknesses and deficiencies, but in large measure freed, by two years of experience of what war meant, from rigid adherence to what had been as recently as 1939 the fixed principles of the party. What is beyond question is that the introduction at apparently breakneck speed during the first half of 1942, of a war economy which could genuinely be described as total, rested on the double foundations of two years' preparation and the overwhelming impact of war in the Pacific.

An illustration or two will serve to make the point. The Commonwealth's legal power in time of war was unlimited in relation to any action "necessary" for the prosecution of war. The *National Security Act* had spelt out in some detail what this should mean; the amending Act of 1940 was a political document declaratory of the constitutional position. The legal

⁷ P. Hasluck, *The Government and the People 1939-41*, in this series.

"LEFT TILL CALLED FOR!"



Armstrong in Argus (Melbourne), 16 Dec 1941.

power had been very incompletely exercised because the political basis for its use was lacking, and a government brave enough to disregard its own party could have been certain that action that hurt any section would have been challenged in the courts, and far from certain that the challenge would not be upheld. After December 1941, for perhaps nine months, the legal position did not matter; constitutional challenge was unlikely (the State governments which challenged uniform income tax were regarded with doubt even by their supporters); and any action which could be shown to have real connection with the war was certain to be upheld. The Directorate of Manpower would have been impossible in 1940, or even in 1941; it went into action from early February 1942 completely accepted by the nation. As late as mid-1941 real weight had to be given to opposition to any action which even appeared to threaten displacement of labour; by February 1942 it was possible for a Labour government to prohibit a long list of "non-essential" industries, and to find most willing cooperation from the victims in implementing the prohibition.

"Pearl Harbour" came to be for Australians a symbolical expression for the start of war in the Pacific, although in point of time the landings in Malaya occurred some hours earlier. It symbolised that, at last, Australia was at war with the traditional enemy, an enemy who felt strong enough to challenge the most powerful nation on the Allied side; secondly it meant that the United States was, unreservedly, a full fighting ally in the Pacific. The enemy was powerful and in the first dark weeks his southward advance seemed irresistible; the new ally's Pacific battle fleet had ceased to exist. The threat was immediate and terrifying, but, at least ultimately, rescue could not fail. Yet for immediate survival Australia stood alone and its own efforts must determine whether the final outcome should be preceded by defeat, or by successful defiance.

The two years' breathing space, with its building up, despite all the mistakes and bickerings, of an industrial base and of an administrative machine, and all that is covered by the process of getting used to being at war, should not be forgotten or belittled. But it was war in the Pacific, with its uncompromising challenge, which swept away the barriers and shattered the resistances and reservations to a total war economy.

INDEX

- ABBOTT, Hon J. P., 476n
 ABERDEEN AND COMMONWEALTH LINE, 152n
 Acadia, Norwegian merchantman, 163, 192
 ACCOUNTANCY ADVISORY PANEL, 13-14, 28-29, 171, 258, 270, 301-2, 305, 447n
 ACCOUNTANTS, COMMONWEALTH INSTITUTE OF, 219
 ACCOUNTING, in price control, 31, 33-4, apple and pear scheme, 100, exports, 114; for foreign companies and cargoes, 132, 140; in shipbuilding, 171, 438-9; for charter parties, 187-8; in works estimates, 223, government contracts, munitions and cost-plus, 299-302, 307-11, 319n, E.G.S.C., 335, taxation, 384, 390-4, stocks scheme, 461-2
 ACTUARY, COMMONWEALTH, 186, 205
 ADELAIDE, 33, 94, 294, 314, 400, 417, 418
 Adelaide, Cruiser, 440n
 ADELAIDE STEAMSHIP CO LTD, 188n, 418n
 ADMINISTRATION, general problems and policy, 1-3, 13, 19, 293 *et seq.* 347-8, 351-2, 355-62, 501-4; of primary products, 8-9, 55-9, 74-5, 85-6, 89 *et seq.* price control, 29-30, 344, finance, 112-3, 133, 204-5, 209-12, 372-8, 381-2, 384, 393-4, import licensing, 118 *et seq.* 426-7, shipping, 143-4, 147-8, 152, 155-6, 162, 182, 184-5, 188-9, 399-402, 424-5, shipbuilding, 171, 175-6, 438-9, manpower, 224, 232-4, 238, 249-52, 475-9, 499, supplies and munitions, 253-4, 256, 271-9, 300, 303-4, 312-3, 316n, 318-9, 327n, 332n, 339-40, 346, 352-3, 430-1, 447-9, 467-9, aircraft production, 267, 269-71, 322-3, 441-4, petrol rationing, 281-5, 452-3, 469-74, E.G.S.C., 335, coal, 410-3, 416, 421-3, Lend-Lease, 432-4, Dept of W.O.I., 463-9, 493-9
 ADVERTISING, 132
 ADVISORY AND CONSULTATIVE COMMITTEE, *see* TARIFF BOARD
 ADVISORY WAR COUNCIL, 175, 245, 321, 338, 340, 367, 369-70, 413, 442, 464
 AFRICA, 329, 349
 AGRICULTURAL COUNCIL, AUSTRALIAN, 108
 AGRICULTURE, fertilisers for, 107-9; Commonwealth-State conflict, 351, 353; *see also* PRIMARY PRODUCTION and separate headings
 AIR, DEPARTMENT OF, 186, 211, 214, 335n, 382n, 449
 AIR, MINISTER FOR, 441
 AIR BOARD, 2, 7, 431
 AIRCRAFT, purchases of, 125, 186, 259, 260n, 397, 431; repairs to, 444n
 —ANSON, 323, 444
 —BEAUFIGHTER, 324, 441, 443, 444n
 —BEAUFORT, 267-9, 322-4, 436n, 441-5
 —DRAGON (DH84), 444
 —GIPSY Moth, 7
 —LOCKHEED HUDSON, 271, 431
 —TIGER Moth, 323-4, 443n, 445
 —WACKETT TRAINER, 271, 323n, 443, 445
 —WARRIGAL, 6n
 —WIDGEON, 6n
 —WIKIRAWAY, 7, 267-71, 322-4, 441-3, 445
 AIRCRAFT ENGINES, factory for, 7, 286, 382n
 —GIPSY MAJOR, 323, 444n, 445
 —SCARAB, 271
 —TAURUS, 267, 268
 —WASP, 268-9, 271n, 322-3, 437, 441, 444n, 445, 449
 —WRIGHT, 323-4, 441, 444
 AIRCRAFT CONSTRUCTION BRANCH, 267
 AIRCRAFT MANUFACTURE, COORDINATING COMMITTEE OF, 444
 AIRCRAFT PRODUCTION, early development, 5-7, 342; raw materials and priorities for, 14, 254, 267-71, 276, 293, 322-4, 330-2, 349, 441, 444, 446n, 449; manpower for, 237-8, 244, 247, 476, 491; wartime development, 345-6, 441-4; statistics of, 445
 AIRCRAFT PRODUCTION, DEPARTMENT OF, 44-5, 212, 261, 346, 351, 382n, 435, 441-2, 444n, 448-9, 468n, 493, 498
 AIRCRAFT PRODUCTION, DIRECTOR OF, 327n
 AIRCRAFT PRODUCTION COMMISSION, 270-1, 312, 322, 324, 431, 441-4, 497
 AIR RAID PRECAUTIONS, 435n, 452
 ALBANY, WA, 62
 Albatross, Seaplane carrier, 440n
 ALBURY, NSW, 256n, 314, 341n, 399, 400
 ALIENS, 224
 Allenwood, Australian coastal vessel, 189
 ALLIED SUPPLY COUNCIL, 447n
 ALLIED SUPPLY STANDING COMMITTEE, 447n
 ALLIED WORKS COUNCIL, 80n
 ALLOCATION, of manpower, 14-16, 241, 475, 477-8, shipping, 22, 144-5, 158, 166, 188-9, supplies, 293, 448, 451, 495; as a factor in general policy, 352, 377, 391, 426, 464, 468-74, 500
 ALLOCATION OF INTER-ALLIED TONNAGE, COMMITTEE OF, 190
 ALUMINIUM, 7, 29, 153, 328n, 330-2, 444-7, 449
 AMALGAMATED ENGINEERING UNION, 225, 237, 243
 AMALGAMATED WIRELESS (AUSTRALASIA) LTD, 359
 Anatina, Norwegian merchantman, 192
 ANGLO-GREEK ALLOCATION COMMITTEE, 191
 Anglo-Maersk, Danish tanker, 151, 160
 Anna Odland, Norwegian merchantman, 192
 ANNEXES, *see* MUNITIONS PRODUCTION
 APPLE AND PEAR BOARD, AUSTRALIAN, 9, 96, 97
 APPLE AND PEAR MARKETING BOARD, 100
 APPLES, *see* FRUIT
 ARBITRATION, *see* CONCILIATION AND ARBITRATION
 ARMSTRONG, Hon T., 411n, 416n
 ARMY, DEPARTMENT OF THE, 186, 211, 264, 289, 296, 298, 335n, 382n, 432
 ARMY, MINISTER FOR THE, 261, 339-40, 406, 476
 Aspasia Nomikos, Greek merchantman, 192
 ASSOCIATED STEAMSHIP OWNERS, 182-4, 188, 417
 Astoria, Danish merchantman, 160, 163, 190-2
 Atlantic, Panamanian merchantman, 192
 ATLANTIC OCEAN, 79, 92, 117, 183
 ATTORNEY-GENERAL, 10, 141, 476
 ATTORNEY-GENERAL'S DEPARTMENT, 186
 AUDITOR-GENERAL, 99-100
 A.U.S.N. Co LTD, 188n
 AUSTRALASIAN COUNCIL OF TRADE UNIONS, 15, 243
 AUSTRALASIAN SOCIETY OF ENGINEERS, 239
 AUSTRALASIAN STEAMSHIP OWNERS' FEDERATION, 147-9
 AUSTRALIAN, THE, effect of war on, 25, 133-4, 342-3, 348, 500-2, 504; view of real wealth, 54, controls, 115-6, 119, 226-7, 291, 293, 350-1, 473, shipbuilding, 168, unemployment, 229-30, bank credit, 367; war effort of 490
 AUSTRALIAN AIR FORCE, supplies for, 2-3, 6n, 7, 12, 26-7, 143, 158, 213, 255, 262-3, 273, 287-8, 294-7, 319, 338, 397, 402n, 431, 432n, 449; manpower for, 228, 231-2, 237, 239-40, 431, 484; role of, 348-9, 444n; *see also* AUSTRALIAN FIGHTING SERVICES
 AUSTRALIAN ALUMINIUM CO LTD, 330, 446n, 447
 AUSTRALIAN ARMY, supplies for, 2-3, 12, 103, 158, 183, 210-1, 255, 259n, 261-5, 287-90, 295-9, 318, 320-2, 333, 337-8, 436-8, 450, 452, 454; manpower for, 85, 190, 228, 229, 234, 237, 239-40, 481; role of, 348-50; part in railway administration, 398 *et seq.*; *see also* AUSTRALIAN FIGHTING SERVICES
 AUSTRALIAN CAPITAL TERRITORY, 30n, 49, 53
 AUSTRALIAN COAL AND SHALE EMPLOYEES' FEDERATION, 416n, 421, 423
 AUSTRALIAN CONSOLIDATED INDUSTRIES LTD, 10

- AUSTRALIAN FIGHTING SERVICES, supplies and munitions for, 78, 80, 103-4, 210-1, 213, 253, 255-6, 258, 270-4, 297-8, 300, 303-4, 318-9, 338-42, 347, 349, 367, 381, 431, 448, 450, 467-9; works and buildings for, 221, 294-5; manpower for, 224-8, 231-5, 240-1, 475-8, 480-2, 484, 486, 490-1, 499; vehicles and fuel for, 280, 286, 398, 402, 405; camps for, 295-6; pay of, 388, 391; debt relief for members, 453*n*; administration of, 495, 498
- AUSTRALIAN GASLIGHT COMPANY, 422
- AUSTRALIAN IMPERIAL FORCE: *Second*, 126, 298-9, 321*n*, 333-4, 348, 436*n*, 484
- AUSTRALIAN IRON AND STEEL LTD, 410*n*, 419
- AUSTRALIAN NAVY, munitions and supplies for, 6, 12, 286, 294, 318, 319, 338, 339, 447; part in pre-war plans, 26, 117, 143-50; ships for, 151-2, 158, 161, 169, 172-5, 177-8, 181, 186-90, 347, 402*n*, 405, 439-40, 449; manpower for, 228, 481; dock for, 275; role of, 348-9; *see also* AUSTRALIAN FIGHTING SERVICES
- AUSTRALIAN OVERSEA TRANSPORT ASSOCIATION, 144
- AUSTRALIAN PAPER MANUFACTURERS LTD, 36
- AUSTRALIAN STEAMSHIPS PTY LTD, 188*n*
- AUSTRALIAN SUPPLY COUNCIL, 433
- AUSTRALIAN WORKERS' UNION, 243
- AUTOMOTIVE INDUSTRIES, CHAMBERS OF, 282
- AUTOMOTIVE INDUSTRIES PANEL, 273*n*
- AVIATION, pre-war development, 397
- AWARDS, *see* CONCILIATION AND ARBITRATION; INDUSTRIAL RELATIONS; WAGES
- BALLARAT, Vic, 315
- BALL BEARINGS, 437
- BALMFORD, W. C., 185, 205
- BANK OF ENGLAND, 110-1, 345
- BANK OF NEW ZEALAND, 112
- BANKING, ROYAL COMMISSION ON, 369, 371, 378
- BANKS, role in monetary control, 68, 110 *et seq*; role of central bank, 111, 217-8, 367-9, 394-5; loans and credit, 122, 196, 200-3, 207-8, 217, 219, 307, 363-4, 377-81, 383, 389; deposits with, 205-6, 374, 379; agreement on "special accounts", 372, 378-80, 389-90, 500; and stocks scheme, 462; manpower for, 483
- BARDIA, Battle of, 348
- BARLEY, 8-9, 85-6, 94-6, 161-5
- BARLEY BOARD, AUSTRALIAN, 94
- BARTLEET, E. T., 418*n*
- BAUXITE, 330-2
- REEBY, Hon Sir George, 244
- BEER, 103, 365
- BELGIUM, 62, 94, 222, 241, 279
- BENDIGO, Vic, 256*n*, 314
- BENNETT, H. B., 313*n*
- BIRT AND CO PTY LTD, 152
- BISHOP, H. E., 30*n*
- BLAMEY, Field Marshal Sir Thomas, 15, 17, 227-9
- BLUE STAR LINE, 152*n*
- BOAS, I. H., 276*n*, 280*n*
- BOUNTIES, wheat, 87; wine, 102; shipbuilding, 150, 168-71, 280
- BRADFIELD, NSW, 294
- BRAITHWAITE PTY LTD, Wm, 274*n*
- BRAHE, J. F., 182*n*, 188
- Brattdal*, Norwegian merchantman, 162, 163, 190, 192
- BRIDGMAN, F., 150*n*, 188*n*
- BRIDGEN, Professor J. B., 136, 281*n*, 315*n*, 357*n*, 435*n*, 469, 472, 493
- BRISBANE, 1-2, 161, 400, 425, 440
- BRITISH AIR FORCE, 348, 431
- BRITISH ALUMINIUM CO LTD, 446*n*
- BRITISH ARMY, 126
- BRITISH COMMONWEALTH OF NATIONS, in Aust election policy, 1; aircraft production in, 5; meat trade, 73-4; foreign exchange resources, 137; shipbuilding and shipping of, 173, 191; and Lend-Lease, 432-4
- BRITISH FIGHTING SERVICES, 81
- BRITISH GOVERNMENT DEPARTMENTS, Admiralty, 163, 186, 286, 439, 441, 447*n*; Air Ministry, 268, 270, 431; Dominions Office, 26, 127; Ministry of Economic Warfare, 139, 150, 151; Food (Defence Plans) Dept, 4, 8, 144, 147; Ministry of Food, 56, 58, 59, 68, 70-6, 81-3, 99, 158; Ministry of Shipping, 108, 153, 155-6, 159-60, 162-8, 286; Ministry of Supply, 120, 154, 158, 334*n*, 430; Tinsplate Controller, 460; Board of Trade, 4, 60, 144, 334*n*; War Office, 163; Ministry of War Transport, 191
- BRITISH NAVY, 1, 22
- BRITISH PURCHASING COMMISSION, 260, 321, 326, 431, 434, 460
- BROADCASTING, *see* RADIO
- BRODRIBB, N. K. S., 254, 475*n*
- BROKEN HILL, NSW, 39, 341*n*, 399, 403, 405, 406
- BROKEN HILL PTY LTD, 9, 169, 172, 244, 328, 330*n*, 403, 410*n*, 439, 444-6
- BROOKE-POPHAM, Air Chief Marshal Sir Robert, 339
- BROWN, G., 418*n*
- BROWN, Sir HARRY, 223, 357*n*, 466*n*, 468, 471, 498
- BROWN, J. & A., & ABERMAIN SEAHAM COLLIERIES LTD, 416*n*
- BROWN'S COAL PTY LTD, 418*n*, 421*n*
- BRUCE, Rt Hon Viscount, 1
- BRUNS, G. R., 414*n*
- BUDGETS, *see* FINANCE
- BUILDING, *see* REAL ESTATE
- BUILDING SOCIETIES, 206, 372, 374-7
- BURMA, 337
- BURNSIDE, J. P., 418*n*
- BURNS PHILP AND CO LTD, 147
- BUSINESS ADMINISTRATION, BOARD OF, 175, 211-3, 258, 265, 269, 270, 274, 294, 296-8, 321*n*, 467
- BUSINESS ADMINISTRATION, INSPECTOR-GENERAL OF, 212
- BUTTER, *see* DAIRY PRODUCE
- CABINET, reconstructed, 13, 324; in pre-war plans, 20; policy on imports and exchange, 119, 130-2, manpower, 242, 477, 479, munitions, 257 *et seq*, petrol rationing, 283, 285, 289, new industries, 305, iron embargo, 327*n*; role in administration, 358, 493, 499; policy on Dept of WO1, 494-5; *see also* ECONOMIC CABINET; ECONOMIC AND INDUSTRIAL COMMITTEE; PRODUCTION EXECUTIVE; WAR CABINET
- CALCUTTA, 36, 278
- CALEDON SHIPPING AND ENGINEERING CO, 172, 439
- CAMERON, Hon A. G., 92
- CAMOOWEAL, Qld, 405
- CAMPS, 212, 274-5, 278, 295
- CANADA, 42-3, 81-3, 87, 89, 91-2, 94, 102, 115, 125-6, 134-6, 144, 191, 194, 328*n*, 331, 332, 446*n*, 490
- CANBERRA, 29, 30, 209, 304
- CANNED FRUIT, *see* FRUIT
- CANNED FRUITS BOARD, AUSTRALIAN, 9, 79
- CANNING, of meat, 75-7, fruit, 79-81, 84, 99, 101; tinsplate for, 460
- CANTEENS, 158
- CAPITAL ISSUES ADVISORY BOARD, 202-7, 220, 304, 372-8, 383, 389, 466*n*
- CAPITAL ISSUES ADVISORY COMMITTEE, 202*n*
- CARIBBEAN SEA, 193
- Carola*, Panamanian merchantman, 192
- CARPETS, 38
- CARVER, S. R., 354
- CASEY, Rt Hon R. G., 13, 195, 201, 257*n*, 431, 433*n*
- CASH ORDERS, *see* HIRE PURCHASE
- CASTLEMAINE, Vic, 440*n*
- CENSUS, 16, 228, 229
- CENSUS AND STATISTICS, BUREAU OF, 490*n*
- CENTRAL PROVISION OFFICE, 335
- CENTRAL TRAFFIC COMMITTEE, 188
- CENTRAL WOOL COMMITTEE, 59-65, 103, 158, 278
- CESSNOCK, NSW, 315*n*, 409

- CHARCOAL GAS, *see* PRODUCER GAS
 CHARTERING, 91, 108, 144, 154-5, 160-5, 179, 186-8, 190-2
 CHARTERING BOARD, COMMONWEALTH, 191
 CHEESE, *see* DAIRY PRODUCE
 CHEMICALS, 12, 29, 330, 335, 460-1, 471*n*
 CHIFLEY, Rt Hon J. B., 203, 236, 243, 313, 391, 394, 396, 502
 CHILD ENDOWMENT, 383*n*, 393
 CHILE, 194
 CHINA, 1, 73, 91, 130, 140, 165, 167, 434*n*, 436*n*
 Chios, Greek merchantman, 165, 192
 CHIPPINDALL, Sir Giles, 498*n*
 Chloe, Greek merchantman, 192
 CHRISTMAS ISLAND, 108
 CHURCHILL, Rt Hon Sir Winston, 134
 CIVIL AVIATION, DEPARTMENT OF, 186, 236
 CIVILIAN CONSUMPTION, pre-war plans for, 25-6; of primary products, 44, 55-6, 64, 69, 71-3, 75, 78, 80, 82-6, 91 *et seq.*, 105-7, raw materials, 136, 138, 274, 277, 296, 325, 329*n*, 330, 467, 496, petrol, 280, 283-5, 288, Lend-Lease supplies, 434; as factor in import control, 124-5, 127-30, financial policy, 293, 363, 370-2, 377, 388-9, 391, manpower policy, 475-6, 484-5; general policy on, 253, 300, 303, 489; restriction of, 340-1, 347, 350, 426, 449-50, 463, 466, 468-70, 472, 499
 CLAPP, F. B., 260*n*, 433*n*
 CLAPP, Sir Harold, 267, 312, 442*n*
 CLAREY, Hon P. J., 479*n*
 CLARK, C. G., 354
 CLOTHING, 271, 274, 296, 334, 470, 471*n*, 473, 474
 CLYDE ENGINEERING Co LTD, 440*n*
 CLYNE, Hon Mr Justice T. S., 182*n*, 185*n*
 COAL, 36, 37, 146-8, 150, 177-81, 189, 241, 244, 248, 315*n*, 347, 403, 405, 407-25, 486
 COAL BOARD, COMMONWEALTH, 412-4, 416-23
 COAL COMMISSION, COMMONWEALTH, 423-4
 COAL COMMISSIONER, 416*n*, 418*n*, 420*n*, 421-4
 COAL DISTRIBUTION COMMITTEE, 410, 411
 COAL FREIGHTS EQUALISATION FUND, 419-20
 COALMINING, ROYAL COMMISSION ON, 416*n*, 420*n*
 COAL REFERENCE BOARDS, 414-6, 423
 COCKATOO ISLAND, NSW, 169, 177, 438, 439, 440
 COCKBURN, NSW, 399
 CODE, A. R., 473*n*
 COFFEE, 29
 COLONIAL SUGAR REFINING Co LTD, 83, 147, 189, 279*n*, 292, 456*n*
 COMMERCE, CHAMBERS OF, 15, 33, 140
 COMMERCE, DEPARTMENT OF, 8, 9, 19, 23, 44, 55, 59-60, 73, 105, 109, 116, 123, 143-9, 152-66, 177-9, 181-2, 184, 186-7, 189-92, 376, 416*n*, 417
 COMMERCE, MINISTER FOR, 75, 90, 92, 179-81, 188, 214-5, 358, 493
 COMMITTEES, excessive creation of, 352, 355
 COMMONWEALTH AIRCRAFT CORPORATION, 6*n*, 7, 267-71, 322-3, 442-4
 COMMONWEALTH BANK, in pre-war plans, 26; role in price control, 32; interest policy, 44; and primary products, 59, 70, 72-5, 81, 85-6, 89-95, 99-102, 105, 113-4; in general financial policy, 110, 195-6, 200, 206, 214, 217, 367, 369-70, monetary and import control, 112-3, 116-26, 131-3, 426-8; loan policy, 198, 363, 371; and capital issues, 207-8; finance for new industries, 291*n*, 305; and banking agreement, 372, 378-80, 389, 394-5; and stocks scheme, 462
 COMMONWEALTH SHIPPING LINE, 143, 168
 COMMONWEALTH-STATE RELATIONS, in production and supply, 6, 275-6, 295, 307, 313, 320*n*, 328*n*, 457-8, 463*n*; primary production, 26, 67, 71, 74, 83-5, 87-107, price control, 29-30, 37, 40, 47-53, shipbuilding and shipping, 169-71, 185, transport and petrol rationing, 178, 281, 284, 291-2, 399-400, 402-7, 424-5, 452, 455, finance and taxation, 198-9, 202, 204, 206, 220-3, 230, 364-5, 372, 380-90, 393-4, 500, industrial relations and manpower, 235-8, COMMONWEALTH-STATE RELATIONS—*Continued*
 243-6, 249-52, 475, 478-9, administration, 351, 353-4, coal, 410-2, 418, 422-4, national security powers, 504
 COMMONWEALTH STEEL Co, 316*n*
 COMMUNIST PARTY, 421*n*
 COMPENSATION, of orchardists, 100-1; for requisitioned property, 186-8; in transport, 425
 COMPTOIR NATIONAL D'ESCOMPTE DE PARIS, 112
 CONCILIATION AND ARBITRATION, COMMONWEALTH COURT OF, 32, 35, 37, 45-7, 225, 236, 238, 241-50, 355, 414-5
 CONFECTIONERY, 132
 CONSCRIPTION, 14, 226, 234-5
 CONSTITUTION, THE COMMONWEALTH, 67, 93, 104, 353
 CONTRABAND, 139-40, 150-1
 CONTRACT BOARD, 11-12, 254, 271-2, 293, 296-8, 300-2, 306-7, 309-11
 CONTRACTS, for munitions, 6, 420, exports of primary produce, 8-9, 54, 59, 60 *et seq.*, 71-85, 110, 114, 116, 123, 144, 342, 376; conditions of, 13-14, 31, 184, 212, 226, 273-4, 300-2, 308-11, 350, 352; with enemy, 139; for shipbuilding, 171, 438-9, aircraft production, 270, service supplies, 274, 294-300, 467-9, flax production, 279-80, coal, 412, gas producers, 455, stockpiling, 461-2
 CONTRACTS, Director of, 12
 CONTRACTS OFFICE, 2
 CONTROLS, pre-war plans for, 23-5; of prices and rents, 44 *et seq.*; role in general economic policy, 52-4, 293, 300, 305, 342, 350, 378, 383, 388-9, 391-3, 469-70, 497-8; of primary products, 60 *et seq.*, 71-3, 76, 83 *et seq.*, 97 *et seq.*, 104, 106-7; financial, 111 *et seq.*, 133, 201-7, 372, 394-5, 430, 500; of enemy trade, 139-40, patents and copyright, 141, shipping, 150-1, 155-6, 181-2, 188-9, 412, manpower, 235-6, raw materials, 276-9, 329, 458-63, producer gas units, 291, 455; of machine tools, 325-6; use of committees in, 352; of real estate, 372-8, railways, 399, coal, 412-3, 421-4, ball bearings, 437*n*
 CONVOYS, 194
 COOMBS, Dr H. C., 357*n*, 432*n*, 471, 493
 COOTAMUNDRA, NSW, 400, 405, 419
 COPLAND, Sir Douglas, 30-1, 185, 357*n*, 463, 471-2, 493-4, 498
 COPPER, 153, 277, 328*n*, 329, 446*n*
 COPRA, 161, 164, 166
 COPYRIGHT, 140-2
 CORNSACKS, *see* JUTE
 COST-PLUS, 6, 45, 172, 238, 297, 301, 305, 308-11, 350, 420, 438-9
 COSTS, as factor in price control, 32-5, 39; interest a factor in, 44; wages a factor in, 46-7; in primary production, 81, 89, 102, imports, 123, 427, shipbuilding, 168-9, 171, shipping, 181, 182-5, 187; service supplies, 209-13, 299-300, government contracts, 301-2, 309-11, transport, 406, 451, 455, coal, 419-20, planes, 443, munitions, 447*n*, stocks scheme, 461-2
 COTTON, 29, 131, 138, 153, 154, 274, 277, 303, 305-6, 334-5, 434, 461, 466
 COTTON SUPPLIES COMMITTEE, 305
 COUNTRY PARTY, 54, 101
 COURTS, *see* CONCILIATION AND ARBITRATION; LAW
 "C" SERIES INDEX-NUMBERS, 42
 C.S.I.R., *see* SCIENTIFIC AND INDUSTRIAL RESEARCH
 CURTIN, Rt Hon John, 202, 385, 390, 502
 DAIRY PRODUCE, butter, 4, 8-9, 56, 58, 66-71, 157, 158; cheese, 56, 66-71, 157, 454; eggs, 8-9, 56, 58, 71-3, 157; milk, 56, 69, 70
 DAIRY PRODUCE BOARD, 9, 66, 68
 DAIRY PRODUCE COMMITTEE, 56
 DAIRY PRODUCE CONTROL COMMITTEE, 68
 DAIRY PRODUCE EQUALISATION COMMITTEE, 67
 DAJARRA, Qld, 405
 DARWIN, 242
 DAVIDSON, Hon Sir Collin, 416*n*, 420-1

- DAVIS, Capt J. K., 150n
 DEBTORS' RELIEF, 453-4, 464
 DECENTRALISATION, 2, 340-1, 420
 DEEDMAN, Hon J. J., 496
 DEER PARK, Vic, 314
 DEFENCE, in inter-war years, 1-2; E.A.T.S. as part of, 125; imports for, 129; motor vehicles for, 136; shipping as part of, 143-4; tank as weapon, 319-20
 DEFENCE, CIVIL, *see* AIR RAID PRECAUTIONS
 DEFENCE, COUNCIL OF, 20
 DEFENCE, DEPARTMENT OF, 2-3, 5, 11, 13-15, 18, 116, 149, 150, 209-11, 221, 224, 236, 253, 254, 257, 258n, 268, 280, 312, 354, 424
 DEFENCE, MINISTER FOR, 3, 210
 DEFENCE COMMITTEE, 2-3, 257, 258, 262, 263, 265, 314, 315, 333, 340, 400-1, 404-8, 448, 496
 DEFENCE COORDINATION, DEPARTMENT OF, 170, 186, 211, 228, 250, 269, 402, 468, 477, 484, 485, 493, 498
 DEFENCE COORDINATION, MINISTER FOR, 233, 261, 270, 294, 295, 399, 404, 406
 DEFENCE EXPENDITURE, extent of, 195-7, 200-1, 219, 363-7, 382n, 383, 388-90, 391-5, 488-9; loans and the lag in, 198, 220-3, 274-5, 312, 381-3, 470; administration of, 209-13, 294-5; and unemployment, 231; on munitions production, 255, 257, 263-71, 435; on railways, 399, 403-8
 DEFENCE RESOURCES BOARD, 2-3
 DEFENCE SUPPLY PLANNING COMMITTEE, 254, 259, 260, 277, 315
 DE HAVILLAND AIRCRAFT CO PTY LTD, 7, 323, 444n
 DENMARK, 94, 141, 160
 DENNISS, A. G., 416n
 DEPRESSION, ECONOMIC, 5, 7, 143, 144, 199, 222, 229-30, 231, 350, 364, 367
 DERWENT PARK, Tas, 341n
 DILUTION, *see* INDUSTRIAL RELATIONS; MAN-POWER
 DIVIDENDS, *see* INVESTMENTS
 DIXON, Hon Sir Owen, 181, 182, 185, 187, 188
 DOLLARS, *see* FOREIGN EXCHANGE
 DONALDSON, T., 312
 DOUGLAS, T. S., 184, 186
 DOUGLAS CREDIT, 367, 369
 DRAKE-BROCKMAN, Maj-Gen Hon E. A., 414n, 423
 DRAKEFORD, Hon E. S., 476n
 DRIED FRUITS, *see* FRUIT
 DRIED FRUITS ASSOCIATION, AUSTRALIAN, 82
 DRIED FRUITS BOARD, AUSTRALIAN, 9
 DRIED FRUITS EXPORT CONTROL BOARD, 82
 DROUGHT, 76, 367
 DRYING, *see* TECHNOLOGY
 DUBBO, NSW, 419
 DUNK, W. E., 475n
 DUNKIRK, 210, 222, 241, 264, 271
 DYSART, Vic, 399
 EADY, M. T. W., 6n
 EAST ASIATIC CO, 141
 EASTERN GROUP SUPPLY COUNCIL, 64, 333-5, 337, 340, 435, 450n, 464, 467
 ECONOMIC AND FINANCIAL COMMITTEE, *see* FINANCIAL AND ECONOMIC COMMITTEE
 ECONOMIC AND INDUSTRIAL COMMITTEE OF CABINET, 421, 433, 451-2, 454, 463-8, 490-4
 ECONOMIC CABINET, 131-2, 137, 162, 190, 213-7, 260, 269, 304, 329, 347-8, 357-9, 360, 361, 493, 497
 ECONOMIC CONSULTANT, 32, 347, 463, 465-6, 472, 493-4
 ECONOMIC COORDINATION, DIRECTOR OF, 131, 132, 135, 137-8, 190, 215-6, 275, 283, 306, 328n, 347, 359-62, 464
 ECONOMIC WARFARE, 25, 58, 60, 83, 92, 130, 139, 151
 ECONOMIC WARFARE, COMMITTEE OF, 139
 ECONOMISTS, 344, 493
 EDUCATION, 143, 237, 344, 351, 353; *see also* TRAINING
 EDWARDS, S. T., 188n
 EGGS, *see* DAIRY PRODUCE
 EGYPT, 163
 ELECTIONS, 1, 252, 284, 363
 ELECTRICAL TRADES UNION, 243
 ELISAVET, Greek merchantman, 192
 ELTHAM, E. P., 239
 EMPIRE AIR TRAINING SCHEME, 125, 269, 271, 287, 322, 348, 444n
 ENEMY PROPERTY, CONTROLLER OF, 142
 ENGLAND, J. E., 283n
 EUROPE, 5, 58, 63, 73, 87, 96, 99, 104, 110, 144, 222, 305, 349, 410
 EVA, E. A., 152n, 153n
 EVANS, Colonel D. E., 313
 EVANS, R. E., 418n
 EVANS DEAKIN LTD, 169, 177, 439, 440n
Evi Livanos, Greek merchantman, 192
 EXCHANGE CONTROL, *see* FOREIGN EXCHANGE
 EXPORT COORDINATION (GENERAL CARGO) COMMITTEE, 157, 158
 EXPORTS, pre-war plans for, 4-5, 7-9, 12, 19-20, 25, 26; as factor in price control, 35, 38, 40, 44; war effects, 54-6, 85-6, 111, 278, 388; of primary products, 71-103; as factor in general policy, 103-4, 116-7, 214, 342, 345, 429-30, 464, 500; lack of fertilisers affects, 107-9; as factor in financial policy, 110, 113-4, 123, 200, 217; shipping for, 143-4, 154-7, 159-61, 163, 167, 169-73, 193-4, 347, 350, 441; British policy on, 164, 490; of machine tools, 259; buildings for, 376; in national expenditure, 488
 EXTERNAL AFFAIRS, MINISTER FOR, 493
 EYRE PENINSULA, SA, 189
 FADDEN, Rt Hon Sir Arthur, 126, 362, 363, 364n, 386, 387-91, 394, 402n, 502
 FAIR RENTS BOARDS, 48-53
 FAR EAST, 81, 99, 102, 164, 339-40
 FARES, in shipping costs, 183
Ferndale, Australian merchantman, 440n
 FERTILISERS, 29, 85, 107-9, 153, 154, 162, 164, 278, 388
 FIJI, 161
 FINANCE, general policy on, 1, 26-7, 35, 43-4, 110-1, 195-6, 213-8, 300, 303, 312, 342, 347, 353, 356-9, 428, 470, 488-9, 493, 495-7, 499-500; of primary production, 55-106, supplies and production, 118, 132, 186-8, 208-13, 256-69, 271, 276, 278, 291n, 293, 305-11, 318n, 327, 329-30, 332, 335, 395, 440-1, 447, 451-5, 460-2, patents and trademarks, 140-1, shipping and transport, 162, 183-5, 400, 405, 425, shipbuilding, 168, 172, 175, 177, 438-9, unemployment relief, 230-1, coal freights, 419-20, Lend-Lease, 432-4
 —BUDGETS, 1934-5, 6; 1937-8, 255; 1938-9, 195; *Sep* 1939, 196-7, 209, 381, 384; *Nov* 1939, 199-202, 213, 214, 216; *May* 1940, 217-20, 363-7; *Nov* 1940, 363-7, 369, 383; *Sep* 1941, 385-90, 502; *Nov* 1941, 391-6, 502
 —CAPITAL ISSUES CONTROL, 202-7, 209, 213, 220, 281, 303, 350, 372-8, 466, 469, 500
 —CREDIT, in general policy, 196, 216-8, 363-4, 390-3; controversy over use of, 367-9, 378-80; *see also* BANKS; DEBTORS' RELIEF; DEFENCE EXPENDITURE; FOREIGN EXCHANGE; GOLD STANDARD; HIRE PURCHASE; INVESTMENT; LOANS; SAVINGS; SUBSIDIES; TAXATION
 FINANCIAL AND ECONOMIC COMMITTEE, 13, 19-23, 59-60, 116-25, 149-50, 198, 202, 209, 214-7, 220-1, 231, 251, 347, 355-7, 370-2, 374, 377-80, 382-3, 385, 402n, 429-30, 432n, 463-5, 468-70, 472-3, 493-4, 500
 FISH, 4, 147
 FISHERMEN'S BEND, Vic, 322, 438
 FISK, Sir Ernest, 131, 132, 137-8, 190, 215-6, 347-8, 359-62, 461n, 494
 FLAX, 153, 154, 279-80, 305-6, 388, 459
 FLAX FIBRES PTY LTD, 279
 FLAX PRODUCTION COMMITTEE, 279-80
Florence D, American merchantman, 166
 FLORIDA, 108
 FLOUR, *see* WHEAT

- FOODSTUFFS, 3, 4, 7-9, 12, 29, 55-6, 58, 79, 82, 107, 132, 153, 178, 254, 312, 365*n*, 406, 411, 466
- FOOTSCRAY, Vic, 5
- FOOTWEAR, 12, 38-9, 106-7, 271, 273-4, 303, 365 464, 466
- FOOTWEAR ADVISORY COMMITTEE, 274
- FORD MOTOR CO OF AUST LTD, 298, 299
- Fordsdale*, Australian merchantman, 440*n*
- FOREIGN EXCHANGE, proceeds from exports, 28, 58, 59, 60, 71, 91, 94-5, 103-7; control of, 105, 110-5, 133, 208, 344-5; for imports, 108, 115-25, 134-8, 183, 363-4, 426-7; British policy and sterling, 110, 111, 115, 119, 121-31, 133-4, 191, 200, 219, 363, 427-30, 432*n*; for petrol, 129-30, 282, 285, dividends and royalties, 131-2; as factor in general policy, 200, 470; shortage of non-sterling funds, 345, 347, 349-50, 427-32, 458-9; Japanese funds frozen, 447
- FORESTS, INSPECTOR-GENERAL OF, 275
- FORSTER, A. D. J., 475*n*
- FRANCE, 55, 62, 66, 106, 130, 133-4, 138, 140, 141, 149, 156, 164, 173, 178, 220, 235, 261, 312, 326, 329-30, 349, 359, 400, 410
- FRASER, Sir Colin, 6*n*, 313
- FREIGHT RATES, 37, 66, 84, 108, 140, 143, 144, 179, 181, 182, 188, 403, 409, 419-20, 427
- FREMANTLE, WA, 1-2, 160, 161, 286
- FRENCH, Sir Henry, 8
- FRUIT, canned, 8-9, 56, 58, 79-82, 159; apples and pears, 8, 9, 81, 85-6, 96-102, 345, 352, 388; dried, 8-9, 56, 58-9, 81-3, 101, 159; fresh, 85, 159; political position of growers of, 101-2
- FRUIT INDUSTRY SUGAR CONCESSION COMMITTEE, 84
- FUEL AND POWER, 146, 254, 280, 365*n*, 409*n*, 419, 446, 496; pre-war plans for, 3, 10-11, 21, 29; production of benzol, 11, shale oil, 11, 290-2, producer gas, 277*n*, 280, 290-1, 306, 397, 454-5, substitute fuels generally, 290-2, 388; *see also* COAL; PETROL; POWER
- ALCOHOL
- GARDEN ISLAND, NSW, 320*n*
- GAS PRODUCERS, *see* FUEL AND POWER
- GAZE, H. H., 192*n*
- GIELONG, Vic, 298
- GENERAL AIRCRAFT CO, 6-7
- GENERAL MOTORS HOLDEN'S LTD, 298, 299, 316-7
- GERMANY, 5, 83, 94, 140-1, 149, 241, 261, 342, 490
- GIBLIN, Professor L. F., 22, 355, 357, 469, 493
- GILL, G. H., 161*n*
- GLADSTONE, Qld, 62
- G. M. *Livanos*, Greek merchantman, 192
- GOLD, 104, 112, 115, 122, 133, 197, 201
- GOLDFINCH, Sir Philip, 313
- GOLD STANDARD, 110, 122
- GORDON, Hon Sir Thomas, 148-9, 150, 152, 153, 156-9, 179, 192
- GOULBURN, NSW, 341*n*
- Goulburn*, Australian merchantman, 422
- GOULBURN JUNCTION, Vic, 405
- GOVERNMENT INSURANCE OFFICE OF NSW, 185
- GOWING, M. M., 489*n*
- GRANTS COMMISSION, COMMONWEALTH, 385, 388
- GRANVILLE, NSW, 330, 446*n*
- GREAT BRITAIN, influence of general policy, 4-5, 26, 344-6; and Aust aircraft and aircraft production, 7, 267-71, 442, 443; import and exchange control policy of, 7-9, 110-1, 127-32, 268, 351, 427-30; raw materials, 9, 131, 134-5, 279-80, 328-30, 458-60; Aust primary produce exports to, 25, 38, 44, 54-6, 59-103, 114, 200, 214, 454; price control in, 42-3; relations with U.S.A., 115, 431-4, 501; shipping policy, 116-7, 143-50, 162-8, 179, 186, 188, 190; loans from, 125-6, 219; policy on petrol, 127, 136, 281, 286-9; relations with France, 130, 134, 329-30, 349; role in Aust shipbuilding, 168, 440, 441; marine war risk
- GREAT BRITAIN—*Continued*
- insurance in, 183-5; administration, 210; man-power policy, 237, 249, 480; munitions to and role in Aust munitions production, 257-8, 260-5, 318, 320, 325, 332-3, 337, 435*n*, 436*n*, 437*n*; Army equipment from, 298, 299; taxation in, 364, 489; rationing in, 472; and A.I.F., 484
- GREECE, 140, 165, 166, 190-2, 436*n*
- GREEN, GEORGE E., 402*n*
- GREEN, H. C., 16*n*, 277*n*, 327*n*
- GRIFFITH, NSW, 400
- G. S. *Livanos*, Greek merchantman, 164, 192
- Guatemala*, Panamanian merchantman, 192
- HAMBURG-AMERIKA LINE, 140
- HANCOCK, Sir Keith, 153*n*, 489*n*
- HANDLEY, J. W., 316*n*
- HARDIE, J. M., 203*n*
- HARRISON, G. W., 418*n*
- HARTNETT, L. J., 312
- HASLUCK, Hon Paul, 216*n*, 226*n*, 243*n*, 255*n*, 329*n*, 333*n*, 335*n*, 414*n*, 421*n*, 444*n*, 447*n*, 451*n*, 463*n*, 467*n*, 490*n*, 495*n*
- Hav. Norwegian* merchantman, 165, 192
- HAWKESBURY RIVER, NSW, 405, 406
- Hazelside*, British merchantman, 166, 167
- HEALTH AND SOCIAL SERVICES, MINISTER FOR, 493
- HEBBURN COLLIERIES LTD, 416*n*, 418*n*, 421*n*
- Hermion*, Norwegian merchantman, 192
- Herstein*, Norwegian merchantman, 192
- HIDE AND LEATHER INDUSTRIES BOARD, 106
- HIDES, 39, 103, 106-7, 153, 154, 159, 273, 274, 464
- HIGH COMMISSIONER, AUSTRALIAN, 81, 122, 127, 147, 153, 156, 159-60, 163, 165-6, 172, 190-1, 298, 430, 431
- HIGH COMMISSIONER, UNITED KINGDOM, 161
- HIGH COURT, 182
- HIRE PURCHASE, 208, 377, 378, 453*n*
- HOARDING, 284-5
- HOBART, Tas, 36, 179
- HOGG, R. B., 280*n*
- HOLIDAYS, 412, 413
- HOLLAND, 94, 131, 164, 241
- HOLLOWAY, Rt Hon E. J., 476*n*
- HOLT, Rt Hon H. E., 45, 237, 250
- HOME SECURITY, DEPARTMENT OF, 452
- HONG KONG, 115, 164, 167
- HOOPER, W. E., 274*n*
- HOTELS, 376
- HOUSING, 49-51, 53, 376, 388
- HUGHES, Rt Hon W. M., 476
- HUNGARY, 140
- HUNTER'S BAY, NSW, 294
- ILLAWARRA AND SOUTH COAST STEAM NAVIGATION Co LTD, 147
- IMMIGRATION, 1
- IMPERIAL CHEMICAL INDUSTRIES OF AUST AND N.Z. LTD, 314
- IMPERIAL CONFERENCES, 1926, 2; 1930, 2-3; *Ottawa*, 73, 102; 1937, 1, 3-5, 11-12, 144, 254-5, 333, 334, 345, 435*n*
- IMPERIAL DEFENCE, COMMITTEE OF, 25
- IMPERIAL OIL BOARD, 25
- IMPORT PROCUREMENT, DIVISION OF, 432*n*, 433-4
- IMPORTS, control of, 4, 19-20, 22, 59, 83-4, 107-9, 110-25, 127-38, 144, 163-4, 167, 259, 261, 276, 277, 282, 284, 293, 300, 306, 330, 345, 356, 397, 426-30, 451, 458-62; as factor in price control, 35-7; replacement and new industries, 129, 208, 215, 304-5, 350-1, 357-60, 427-9; general policy on, 218-20, 303, 350-1, 358, 363, 364, 470; oversea administrative machinery, 430-1; in national expenditure, 488
- INCENTIVES, in switch to war production, 44-5, 304-8, 469; in wages, 45-7, 246, 346, 415; and cost-plus contracts, 310-1; in gas producer production, 454-5
- INDIA, 4, 91, 96, 162, 167, 191, 194, 278, 328*n*, 331, 333-5, 435*n*, 467

- INDIAN NAVY, 439
 INDIAN OCEAN, 434
 INDUSTRIAL DISPUTES, effects of, 46-7, 448; statistics, 240; in coal industry, 241, 410-5, 420-2; machinery for settlement, 243-6, 496; effect of war loadings, 248; in railways, 421*n*; in munitions, 436*n*
 INDUSTRIAL ORGANISATION, ADVISORY PANEL ON, 6, 12-13, 15, 18-19, 118, 211, 254*n*, 260*n*, 261, 273*n*, 305, 309
 INDUSTRIAL RELATIONS, administration and general policy, 13-15, 224, 230-1, 242-3, 246, 250, 346, 349-51, 353, 357-9, 475 *et seq*, 485, 486; as factor in price control, 45-7; in shipbuilding, 171, 173, 175, 179; in goldmining, 197; dilution and training, 225, 237-40, 247, 442; incentives, 235-6, 248-9; in coal industry, 241, 412-5, 417, 420-3; shifts in employment, 309, 482-3; *see also* MANPOWER; WAGES
 INDUSTRY, in munitions production, 3-5, 312-3, 316-22, 345-6, 351-2, 437-8; assistance to, 10, 11, 306-8, 325, 395, 438-9; mobilisation and expansion, 273-5, 296-8, 301-8, 318-9, 326, 350-1, 360-1, 376, 407, 427-30, 446, 454-5, 466*n*, 501; and E.G.S.C., 334-5; policy on undistributed profits, 377-8; effects of restriction, 452-3, 459, 463, 466-70, 473-4, 476-7; stockpiling by, 462; manpower for, 480, 482-4, 486, 491, 496
 INFLATION, 127, 215, 218, 300, 351, 369-72, 378-80, 382-3, 389, 391-3, 396, 470, 473, 500
 INSURANCE, war risks, 25, 84, 180, 181, 182-5, 427; companies and capital issues, 207
 INTEREST, as factor in price control, 32, 44, in rent control, 49; general policy, 197-8, 201-3, 205-7, 218, 350; in banking, 204, 374, 380, 394; on government loans, 220, 390; on stocks, 413, 451, 461, 462
 INTERIOR, DEPARTMENT OF THE, 221, 275, 294*n*, 295, 382, 406, 438*n*
 INTERNATIONAL SUGAR AGREEMENT, 84
 INTERNATIONAL WHEAT ADVISORY COMMITTEE, 434
 INTERNATIONAL WHEAT AGREEMENT, 94
 INTERNMENT, 85, 141, 421*n*
 INVESTMENT, restriction and control of, 111, 114-5, 132-3, 142, 186, 198, 201-7, 214, 347, 350, 356, 363, 370-9, 382, 389, 393-4, 471, 500; procedure covering dividends, 119, 131-2, 142, 197, 396
 IRON, 9, 146, 147, 148, 150, 153, 178, 180, 181, 189, 327-8, 403, 405, 407
 IRRIGATION, 81-2
 ITALY, 1, 85, 149, 160-1
 JACK, R. P., 421*n*
 JACKSON, Pay-Cdr J. D., 150
 JAPAN, invades China, 1, the threat of, 5, 8, 22, 108, 117, 149, 152, 180, 342, 348, 397, 407, 447, 490; buys wool, 62; effect of entry into war, 66, 71, 76, 89, 194, 396, 426, 444, 463, 473, 480, 487, 490, 501, 504; buys wheat, 91, 92, barley, 94, 95; Australian trade with, 110, 130-1, 167; shipping of, 140, 143; and iron embargo, 327*n*; seeks nickel, 329; funds frozen, 447
 JENSEN, Sir John, 254, 257, 341, 435*n*, 475*n*
 JESS, Lt-Gen Sir Carl, 15, 17-18, 479*n*
 JOHNSON, L. C., 30*n*
 JOINT COAL BOARD, 409*n*, 414*n*
 JONES, S. V., 152*n*, 153*n*
 JUNE, NSW, 405
 JUNE, 3, 29, 36, 89, 124, 153, 154, 162, 164, 277-9, 335, 459, 460-1
 KALGOORLIE, WA, 197, 403
 Kanimbla, Australian merchantman, 163
 KELLY, Hon Sir William, 46, 47
 KESSELL, S. L., 276*n*
 KEYNES, Lord, 217, 387, 390
 Kianga, Australian merchantman, 189
 KINNEAR, E. H., 280*n*
 KINGSBURY, N., 152*n*
 KITCHENER, Field Marshal Earl, 398*n*
 KNEESHAW, Hon F. P., 6*n*
 KOOLAN ISLAND, WA, 327*n*
 KURRI KURRI, NSW, 315*n*
 LABOUR AND NATIONAL SERVICE, DEPARTMENT OF, 242, 249-52, 351, 354, 376, 465, 475-9, 485-6, 496
 LABOUR AND NATIONAL SERVICE, MINISTER FOR, 45-6, 52, 245, 250, 406*n*, 414, 423, 454, 477, 478, 493
 LABOUR PARTY, policy on defence, 1, 444*n*; opposes National Register, 14-16; policy on finance, credit and costs, 47, 197, 204, 310, 367-70, 380, 384-5, 390-5; takes office, 52, 347, 387-90, 423, 426, 442, 467, 486, 493, 501; policy on wheat, 94, manpower, 226, 230-1, 241; place of J. B. Chifley in, 243; policy on aluminium, 447; position in Parliament, 502
 LAKES ENTRANCE, VIC, 292
 LAND, *see* REAL ESTATE
 LARKIN AVIATION CO, 7
 LAUNCESTON, Tas, 36
 LAW, interpretation and price control, 40-1, 49-53; trading with enemy, 139, 140; evasion of, 207; in relation to Arbitration Court, 246; as backing for controls, 462-3; place of in wartime, 503-4
 LAW, R. O., 313*n*
 LEAD, 147, 153, 154, 329
 LEATHER, *see* HIDES
 LEGISLATION, interpretation of, 40-1; Apple and Pear Appropriation Act, 99; banking, 394; Customs Act, 112; Defence Act, 233, 348; Fair Rents Act, 49; Dairy Produce Control Act, 66; on film industry, 132; Land Acquisition Act, 320*n*; Lend-Lease Bill, 432; on liquor licensing, 103; Meat Industry Encouragement Act, 73; Meat Export Control Act, 74; National Oil Pty Ltd. Agreement Act, 11, 291*n*; National Register Act, 14-15, 229; National Security Act, 24-5, 90, 104, 227, 234, 235, 239, 300*n*, 348, 411, 421, 502-3; Navigation Act, 146; Necessary Commodities Control Act, 28; Patents Trademark Designs and Copyright Act, 141; Payroll Tax, 383*n*; Petroleum Oil Search Act, 10; Rabbitskins Export Charges Act, 104; on rents, 47-53; Ship Bounty Act, 168, 169; Shipbuilding, 438*n*; Supply and Development Act, 13-14, 16, 234-5; Trading with Enemy Act, 139, 141; on transport, 242, 398; of war of 1914-18, 227; War Precautions Act, 202; Wheat Industry Assistance Act, 87
 LEIGHTON, A. E., 254
 LEND-LEASE, 92, 126, 388, 430-4, 436, 460
 LEVER, Sir Hardman, 267*n*
 LEWIS, A. C., 203*n*
 LEWIS, Essington, 6, 7, 211, 254, 259, 266-7, 269, 312, 314, 337, 341, 351, 444
 LIDCOMBE, NSW, 268, 441
 Lidvard, Norwegian merchantman, 192
 LIMESTONE, 147, 148
 LINDSEY, E. H., 30*n*
 LIQUID FUEL, *see* FUEL AND POWER; PETROL
 LIQUID FUEL CONTROL BOARD, 283-5, 289, 450-5
 LIQUID FUELS, COMMONWEALTH STANDING COMMITTEE ON, 11, 13, 280, 290*n*
 LIQUID FUELS, CONTROLLER OF, 283*n*, 289
 LIQUOR, 197, 365, 470
 LITHGOW, NSW, 5, 51, 419, 436*n*
 LIVESTOCK, 39, 56, 101
 LOAN COUNCIL, 26, 198, 202, 204, 216, 222-3, 353, 380-3, 386, 391, 407-8
 LOANS, oversea, 123, 125-6, 363, 388; government, 195-7, 207, 217-23, 353, 356, 358, 364, 370, 372-4, 377, 380-3, 388-96, 493; general policy on, 198-201, 214, 215, 350, 351, 470; mortgages and capital issues, 203-7, 350, 374; compulsory loans, 217, 372, 387, 390, 393; interest-free loans, 220, 369, 371; to contractors, 307; by banks, 378-80, 383, 394-5; *see also* WAR SAVINGS CERTIFICATES
 LOCAL GOVERNMENT, 198, 204, 216, 222, 353, 382

- LONDON, 66, 89, 97, 155, 175, 183, 184, 222
 LONG, G. M., 255n
 LOTHIAN, Rt Hon Lord, 431
 LUXURIES, shipping and transport of, 159-60, 177, 179, 181, 408; restriction of, 208, 360, 365, 393, 470, 476
 LYONS, Rt Hon J. A., 13, 15
- McBRIDE, Hon Sir Philip, 147-8, 435
 McCANN, J. C., 188n, 204n
 McCANN, Lt-Col W. F. J., 30n
 MCCARTHY, E. J., 153n, 158n, 416n, 439n
 MCCARTHY, M. E., 30n
 MCCULLOCH, J. E., 30n
 MACDONALD HAMILTON AND CO LTD, 152n
 MCGIBBON, S. J., 183n
 MAGGREGOR, L. R., 431n, 433, 434n
 MACHINE TOOLS, 3, 208, 259-61, 264, 268, 277n, 315, 317, 321, 325-7, 338, 432n, 442, 443, 447, 465n, 496
 MACHINE TOOLS COMMITTEE, 261, 325
 MCILWRAITH, McEACHARN LTD, 188n
 MACKAY, D. G. J., 188n
 MCKENSEY, S., 416n, 421n
 MACKENZIE, A. D., 418n
 MCLEAY, Hon G., 28, 90, 150, 435n
 MCNEIL, Eng Rear-Adm P. E., 174, 175
 MCVEY, Sir Daniel, 357n, 496, 498
 MAGNESIUM, 153, 330, 446n
 MAIR, Hon A., 28
 MAITLAND, NSW, 146, 409, 419, 422
 MAKATEA, 108
 MALAYA, 317n, 325, 332, 339, 435n, 447n, 504
Manoora, Armed Merchant Cruiser, 163
 MANPOWER, pre-war plans, 14-18, 342; for munitions production, 45, 257, 353, 447-8; in sugar industry, 85; in fertiliser production, 107; as factor in general policy, 110, 196, 215, 218, 224-7, 281n, 293, 340, 346, 372-4, 393, 430, 464, 470, 472, 495-6, 499, 504; shortages of, 133-4, 209, 214, 231-2, 300, 310, 321n, 345-6, 349, 360, 377, 475-7, 500; for shipbuilding, 171, 173-5, public works, 198-9, 221, 439; statistics, 227-8, 354, 481-5, 491; National Register and List of Reserved Occupations, 228-34; training and dilution, 235-49; administration, 249-52, 347, 355-8, 478-81, 496, 501, 502; for machine tool production, 261, 315-6, aircraft production, 271, 324, 442; in coalmining, 414; "protection" principle, 480, 486, 487; position at end 1941, 485-7, 490-1, 499
 MANPOWER AND RESOURCES SURVEY COMMITTEE, 251, 252, 476
 MANPOWER COMMITTEE, 15-19, 224, 225, 229, 232-4, 237, 240-1, 249-50, 342, 448, 476-9, 496
 MANPOWER DIRECTORATE, 224, 479, 480, 487, 501, 504
 MANPOWER PRIORITIES, DIRECTOR OF, 479, 496, 497
 MANPOWER PRIORITIES BOARD, 3, 17, 475, 477-81, 483-7, 496, 497, 499, 502
 MANUFACTURES, CHAMBERS OF, 3, 15, 238
Manunda, Hospital Ship, 163, 178
 MARIBYRNONG, Vic, 5
 MARINE UNDERWRITERS, FEDERAL COUNCIL OF, 184, 185
 MARINE WAR RISKS INSURANCE BOARD, 184, 185, 186
 MARITIME TRANSPORT COUNCIL, 243
 MARKETING, of primary products, 5, 59, 66-107, 345; of British products, 129; of power alcohol, 456; of tobacco, 457-8
 MARYBOROUGH, Qld, 440n
 MARYVALE, NSW, 406
 MASSY-GREENE, Hon Sir Walter, 203, 334, 475n
 MATCHES, 470
 MEAT, 4, 8-9, 38-9, 56, 58, 73-8, 96, 106, 156-8, 464
 MEAT BOARD, AUSTRALIAN, 9, 56, 74, 157
 MEAT CANNING COMMITTEE, 76
 MEAT COUNCIL, AUSTRALIAN, 73
 MEDICAL STORES, 12, 29
- MEDITERRANEAN SEA, 82
 MELBOURNE, 104, 204, 209, 212, 251, 400, 405, 417, 418, 425, 440, 446, 454n, 465n
 MELBOURNE GAS COMPANY, 410
 MELBOURNE HARBOUR TRUST, 169, 177, 418n, 439
 MELBOURNE STEAMSHIP CO LTD, 188n
 MELBOURNE TIMBER MERCHANTS' ASSOCIATION, 37n
 MELLOR, Dr D. P., 261n, 318n, 319n, 328n, 435n, 436n
 MELVILLE, L. G., 22, 357n, 432n
 MENZIES, Rt Hon R. G., 10, 13, 198, 201, 202, 213-5, 220, 243, 342, 347, 359, 387-90, 473, 493-4, 502
 METALS, export of, 8-9, 277-8; production of, 9, 327-32; price control, 29; shipping of, 153, 154, 157, 158; *see also* separate headings
 METAL TRADES EMPLOYERS' ASSOCIATION, 237-8
 MEXICO, GULF OF, 193
 MIDDLE EAST, 81, 164, 165, 167, 179, 183, 190, 191, 299, 320, 333, 334, 349, 435n, 436n
 MIDDLETON, D. F., 152n, 153n
 MIGHELL, Sir Norman, 418n, 421-4
 MILFORD, Maj-Gen E. J., 475n
 MILITARY BOARD, 2, 320, 402n
 MILK, *see* DAIRY PRODUCE
 MILLS, Professor R. C., 357n, 385
 MINES, NSW MINISTER FOR, 411, 421n, 423
 MINESWEEPING, 180
 MINING, *see* COAL; GOLD
 MOBILISATION, 15, 26-7, 399
 MONETARY CONTROL, *see* FOREIGN EXCHANGE
 MONEY ORDERS, 112, 113
 MONOPOLY, in car manufacture, 10; penalties for, 30-1; in relation to price control, 38; in wool, 60; of exchange, 111-2, 133; in flax, 279; in aluminium production, 447n
 MORATORIUM, *see* DEBTORS' RELIEF
 MOROCCO, 140
 MORTGAGES, *see* LOANS
 MORT'S DOCKYARD, NSW, 169, 177, 439, 440
 MOTION PICTURES, 119, 131-2, 428
 MOTOR VEHICLES, manufacture of, 5, 9-10, 320; import of, 129, 134-6, 138, 428n, 434; effect of petrol ration, 281-5, 288, 290, 347, 351, 403, 425, 452, 454, 455; for army, 298-9; role in Aust transport, 397-8, 402
 MOUNT STROMLO OBSERVATORY, 316n
 MUNITIONS, procurement of, 253-4, 430-1; effect of variety, 318, 351; pre-war development, 342; freight rates for, 420
 —AMMUNITION, 5, 255, 263-6, 315-6, 435n
 —EXPLOSIVES, 5, 255-7, 259, 313-6, 337-8, 436
 —GAS MASKS, 435n
 —GUNS AND ORDNANCE, 5, 6, 255-9, 263, 265, 266, 316-9, 333, 435-6
 —SMALL ARMS, 5, 6, 326, 333n, 436, 449
 —SMALL ARMS AMMUNITION, 255, 261-4, 333n, 337, 341, 436, 447n
 —TORPEDOES, 436, 443
 —ARMoured FIGHTING VEHICLES, 319-22; *see also* TANKS
 MUNITIONS, DEPARTMENT OF, administration and work of, 44-5, 175, 212, 225, 236, 251, 253, 261, 273, 276-7, 301-2, 307-13, 318-24, 332n, 337, 339, 346, 351-2, 376, 382n, 434, 435, 438n, 447-50, 461n, 468, 471, 472, 493; Directorate of Labour, 235-6, 242-3, 250, 313; Board of Factory Administration, 254; Directorate of Machine Tools and Gauges, 259n, 261n, 297n, 313, 315-6, 325, 437n, of Materials Supply, 276, 313, 327-32, of Finance, 301-2, 308, 309, 313; Boards of Area Management, 307, 313, 326, 408; Directorate of Explosives Supply, 312-6, 327n, of Gun Ammunition, 312, 315-6, 340; of Ordnance Production, 312, 316-22, 340, 436-8; Armoured Fighting Vehicles Division, 436-8
 MUNITIONS, DIRECTOR-GENERAL OF, 175, 266, 306, 312, 314, 316n, 317, 319, 326, 327, 330, 331, 337, 338, 432n, 440, 446, 468, 478, 496, 497
 MUNITIONS, MINISTER FOR, 238, 447

- MUNITIONS PRODUCTION, development of, 2-6, 12-14, 18, 26, 173, 220, 253-4, 256-7, 263-6, 312-3, 325, 335-6, 345-8, 358, 435-8, 447-9, 501; factories and annexes for, 4-6, 13, 236, 254-6, 260, 262-3, 265, 271, 307, 309, 313-7, 322, 330, 336, 337, 341, 346, 353, 438, 440-1, 446, 448*n*; manpower for, 15, 209, 224-5, 227, 230-2, 235-41, 243-8, 350-1, 353, 475-7, 481, 483*n*, 484, 486, 491, 499; profit and price control in, 28-9, 44-7; effect on housing, 49-51; priorities for, 107, 175, 275, 293, 297, 338-42, 349, 407-8, 441, 449, 453*n*; materials for, 125, 194, 259-61, 275-8, 304, 413, 415, 434-5, 446*n*, 460, 466, 472; govt aid to industry for, 306-7; overseas orders for, 332-5, 435*n*; claims by States for establishment of, 465*n*; use of garages for, 465
- MUNITIONS PRODUCTION BOARD, 237
- MUNITIONS SUPPLY, CONTROLLER-GENERAL OF, 258, 262
- MUNITIONS SUPPLY BOARD, 2-3, 5, 7, 11-14, 254
- MURPHY, J. F., 182*n*, 192*n*
- MURPHY, R. J., 237*n*, 243
- MURRAY RIVER, 81, 328*n*
- MUSWELLBROOK, NSW, 419
- MYER, N., 211, 271*n*
- NARRANDERA, NSW, 405
- NATIONAL DEFENCE CONTRIBUTION, 372, 387, 390
- NATIONAL INCOME, 195, 200, 225, 293, 364, 388, 488-90
- NATIONAL OIL PTY LTD, 11, 291*n*
- NATIONAL PLANNING CONFERENCE, 303
- NATIONAL POWER ALCOHOL CO LTD, 292, 456
- NATIONAL REGISTER, 15-19, 24, 224, 227-35, 342, 346, 354, 483*n*
- NATIONAL REGISTER BOARD, 16-17, 228-9, 250
- NATIONAL SECURITY POWERS, 348-9, 502-3
- NATIONAL STANDARDS LABORATORY, 327*n*
- NAURU, 108, 167
- NAVAL BOARD, 2, 12, 175, 177, 180, 286, 339, 402*n*
- NAVAL CHARTER RATES BOARD, 188
- NAVAL CONSTRUCTION, CHIEF OF, 174
- NAVISCERTS, 139, 150
- NAVY, DEPARTMENT OF THE, 173, 186, 188, 211, 225, 382*n*
- NAVY, MINISTER FOR THE, 161, 179-80
- NELSON, C., 416*n*
- NETHERLANDS EAST INDIES, 129, 131, 136, 337, 435*n*, 447*n*, 450*n*
- NEW CALEDONIA, 329-30
- NEWCASTLE, NSW, 1-2, 146, 179, 400, 403, 409, 416-8, 422
- NEWCASTLE AND HUNTER RIVER SS CO LTD, 147
- NEWFOUNDLAND, 115
- NEW GUINEA, 10-11
- NEWMAN, W. H., 399*n*
- NEWNES, NSW, 11, 291
- NEW SOUTH WALES, munitions and aircraft production, 6, 261, 267, 313, 314, 317, 327*n*, 438; shale oil, 11, 291, 292; price and rent control, 28, 30, 49-53; primary production, 62, 71, 73, 79, 82, 83, 89, 94, 97, 107, 276, 457*n*; shipping, 146, 151-2, 185, 189; transport and railways, 147, 399*n*, 400, 404-7, 416*n*, 418*n*, 419-20, 455; shipbuilding, 174; employment, 199, 229; finance, 204, 384; service establishments, 273, 294; power alcohol, 292, 456; coal, 403, 409-16
- NEW SOUTH WALES INDUSTRIAL COMMISSION, 30, 37
- NEW SOUTH WALES SUPREME COURT, 416*n*
- NEWSPAPERS, 40, 135, 173, 202, 458-9
- NEWSPRINT, *see* PAPER
- NEW ZEALAND, prices in, 43; and Australian primary products, 60, 68, 70, 82, 94, 95, 96, 102, 454; fertilisers for, 108; import control in, 110, 113, 122; shipping for, 144, 154, 167, 191; munitions for, 161, 332-3, 337, 435*n*, 436*n*; petrol rationing in, 282, 283, 450*n*
- NICKEL, 329-30
- NIXON, Sir Edwin, 175, 271*n*, 308, 313
- NOLAN, D. J., 447*n*
- Nordnes, Norwegian merchantman, 192
- NORRIS, C. A., 203*n*
- NORTH COAST STEAM NAVIGATION CO LTD, 147
- NORTHERN TERRITORY, 30, 49, 53
- Nortun, Panamanian merchantman, 192
- NORWAY, 143, 161, 164, 165, 191
- Notou, French merchantman, 329
- OCEAN ISLAND, 108, 162
- OIL BOARD, COMMONWEALTH, 136-8, 281-3, 285*n*, 287*n*, 289-91
- OIL FUEL SUB-COMMITTEE, 19, 280, 281
- OIL FUEL SUPPLY COMMITTEE, 11
- OIL SEEDS, 4
- Oklahoman, American merchantman, 166
- O'MARA, Mr Justice T., 45, 46, 244, 248
- ONIONS, 37
- OPTICAL MUNITIONS PANEL, 273*n*
- ORDERS, prices, 33-37, 39, 40, 329*n*; reserved occupations, 233; essential materials, 463
- OVERSEA CENTRAL COMMITTEE, 149, 152, 155-8
- OVERSEA SHIPPING COMMITTEE, 144, 156, 159, 160, 162, 163, 179
- OVERSEA SHIPPING REPRESENTATIVES' ASSOCIATION, 144, 147, 149, 152-3, 155-6, 158, 183
- PACIFIC ISLANDS, 114
- PACIFIC OCEAN, 24, 26, 56, 109, 185, 190, 339*n*, 405, 411, 434, 484, 485, 486, 498, 499, 502, 504
- PAGE, Rt Hon Sir Earle, 188, 284*n*, 433, 443
- PALESTINE, 163
- PANAMA, 166
- PAPER, 29, 36, 127, 129, 134-5, 154, 277, 434, 450, 458-61
- PARLIAMENT, debates in, 40, 100, 101, 124, 168, 216, 218, 220, 230-1, 274, 369, 380, 384-5, 465*n*, 473, 476; state of parties in, 54, 79, 85-6, 159, 225, 387, 391, 395, 500, 502; role in war-time, 111, 233, 305, 431
- PARRAMATTA, NSW, 315*n*
- PATENTS, 140-2
- PATON, G. W., 432*n*
- PEARCE, Rt Hon Sir George, 212, 475*n*
- PEARL HARBOUR, 18, 232, 353, 370, 396, 423, 480, 488, 490, 499, 501, 504
- PEARS, *see* FRUIT
- PENRITH, NSW, 315*n*
- PENSIONS, 367, 388, 390, 391, 422-3
- PERRY, Hon F. T., 313
- PERTH, WA, 341*n*
- PETROL, 36, 127, 129, 131-2, 134, 136-8, 150, 154, 197, 201, 215, 219, 277, 283, 286-9, 291-3, 347, 350, 351, 397-8, 400, 405, 420, 424, 428*n*, 434, 450-4, 456, 465, 470, 471, 490
- PETROLEUM PRODUCTS, CONTROLLER OF, 283
- PHOSPHATE COMMISSION, BRITISH, 108, 109, 154, 160, 164, 190-2
- PHOSPHATES, *see* FERTILISERS
- Pierre Loti, French merchantman, 151
- POOLE AND STEELE LTD, 169
- POPULATION, 49-51, 225, 228, 293, 397, 476, 482, 491
- PORT AUGUSTA, SA, 328*n*
- PORT KEMBA, NSW, 419
- PORT LINE LTD, 152*n*
- PORT MELBOURNE, Vic, 320
- PORT PIRIE, SA, 403, 405, 406
- PORTUGAL, 166
- PORT WARATAH, NSW, 418, 419
- POSTAGE, 389, 394
- POSTMASTER-GENERAL, 215, 260, 271, 358, 501
- POST-WAR RECONSTRUCTION, shipbuilding, 169, 172, 441; primary production, 215; finance, 218; manpower, 250, 485; general policy for, 305, 334*n*, 358-60; stocks, 306, 462; aluminium production, 331
- POTATOES, 38-39
- POTTER, A. G., 152*n*, 153*n*
- POWER ALCOHOL, 11, 292, 456-7
- POWER ALCOHOL, COMMITTEE OF INQUIRY INTO, 456
- PRATT & WHITNEY, 267

- PREMIERS' CONFERENCES, in June 1939, 10; on price control, 29-30; on rents, 47-8, 51-2; on petrol rationing, 281; on railways, 403
- PRICE CONTROL, introduced, 28-31; principles of, 31-5; "averaging", 33-4, 37-9, 41; breaches, 34-5, 40-1; as factor in general policy, 38, 293, 344-5, 450, 464, 493; international comparisons, 42-3, 105; awards affect, 45-7, 246, 355; of rents, 47-53, footwear, 106, freight rates, 182-4, chartering, 187-8; in supply contracts, 301-2; post-war effects considered, 305-6; of coal, 423; and rationing, 471-2
- PRICES, in export contracts, 4-5, 8-9, 38, 54, 56, 123, 217; course of, 28, 36-8, 41-4, 489; maximum, 29; Commissioner's views on, 31-2; consumers' attitude to, 40-1; international comparisons, 42-3; in munitions production, 45; of wool, 59-65, dairy produce, 67, 71-3, meat, 74, 76, fruit, 81-2, 96-7, 102, sugar, 83-4, cereals, 86 *et seq*; two-price scheme, 103-4; of skins and leather, 104-7; inflation of, 127, 369, 370; of petrol, 129, 291, 451, gold, 197; and wages, 246, 248; of aircraft, 270, 443, footwear, 274, jute, 278-9; in government purchases, 293, 298n, 301-2; of army vehicles, 299-300; cost-plus and, 308-11; of steel, 328n, copper, 329; as factor in financial policy, 357-9, 363, 391; of coal, 412, imports, 427, gas producers, 455, power alcohol, 456, tobacco, 457-8; in stocks scheme, 461-2; as factor in restrictions, 471
- PRICES ADJUSTMENT BOARD, 28
- PRICES BRANCH, 30, 32, 34, 38-41, 43 *et seq*, 184, 187-8, 246, 278-9, 293, 301-2, 471-2
- PRICES COMMISSIONER, 29-32, 39-40, 45-7, 81, 104-5, 108, 181-3, 187-8, 274, 278-9, 301-2, 310, 347, 423, 451, 455, 461, 471, 493
- PRIMARY PRODUCTION, general policy, 54-6, 200, 214, 358, 464; shipping of, 142, 146, 154, 156-63, 167-73, 402n; aid to producers of, 388, 394; petrol rationing effects, 452-3; manpower for, 483, 486, 490-1; *see also* EXPORTS and separate headings
- PRIME MINISTER, 55-6, 59, 60, 125, 137, 167, 173-4, 190, 191, 193, 211, 215, 243, 255, 269, 288, 290, 294, 295, 306, 312, 315n, 319n, 324, 331, 337-8, 341, 347, 358, 359, 360, 388, 404n, 411, 421, 426, 431, 441, 446, 448, 449, 451n, 464, 477, 478, 479, 483n, 484, 490, 494, 495
- PRINCIPAL SUPPLY OFFICERS' COMMITTEE, 2-3, 11, 19, 254, 273, 277, 309, 310; in United Kingdom, 2
- PRIORITIES, for primary products, 63, 74, 85, imports, 117, 119-22, 129-30, 434, shipping, 149-50, 153-7, 159, 163, 167-8, 179, 182, manpower, 250, 252, 475, 476, 478, 480, 499, munitions production, 264, 296, 319, 333n, 338, petrol rationing, 283-4, machine tools, 326, transport, 407-8, 424-5; need for administration of, 426, 448-50, 463-74; for tanks, 437, shipbuilding, 439-40, aircraft production, 444, raw materials, 460-1
- PRIORITIES COMMITTEE, 340
- PRIVY COUNCIL, 67
- PRIZE COURTS, 160
- PRODUCER GAS, *see* FUEL AND POWER
- PRODUCTION EXECUTIVE, 347, 467, 468, 493, 495-7
- PROFIT, in government contracts, 13-14, 301-3, 309-11; on munitions, 28-29; as factor in price control, 31-4; on rentals, 48-9, 52; of foreign companies, 131-2; in shipping, 153, 187-8, shipbuilding, 171; on gold, 197; tax proposed on, 217, 219, 365, 367, 383, 393-4; as incentive, 226; control of, 372, 377-8; in hire purchase, 377, banking, 379, 394; as factor in import policy, 427, in stocks scheme, 461-2
- PROFITTEERING, 293, 345, 377
- PUBLIC SERVICE, 28, 310, 351, 354, 359, 361-2, 370, 379, 431, 433, 478, 493-5, 499, 501
- PUBLIC SERVICE BOARD OF NSW, 479
- PUBLIC WORKS, finance for, 198, 200, 216, 220-3, 353, 381, 382; and unemployment, 231; Sydney dock, 275; Cabinet discusses, 358
- PYRMONT, NSW, 292
- QUEENSLAND, price and rent control, 28, 30, 47-53; primary production, 36, 62, 71, 73, 79, 83-5, 94, 95, 100, 107, 146, 147, 179, 305-6, 457n; employment, 199, 229; finance, 204, 384, 387; munitions and aircraft production, 267, 294, 313; transport and railways, 283n, 400, 404-5; power alcohol, 292, 456; statistical services, 354; coal, 409, 412, 413n; aluminium, 446
- QUEENSLAND SUGAR BOARD, 9
- QUOTAS, dairy produce, 67-8; motor vehicle imports, 135-6
- RABBIT SKINS, 103-6, 157
- RABBIT SKINS BOARD, AUSTRALIAN, 104-5
- RADFORD, F. W., 188n
- RADIO, 145, 151, 342
- RAIL TRANSPORT, DIRECTOR OF, 425
- RAILWAYS, use of workshops, 6, 14, 267-8, 353, 408, 438n, 465n; pre-war plans for, 21, 150, 397-8; effect of war on, 146, 347, 398-408, 424-5; wages in, 248; water for, 328n; and coal production, 409-10, 413-4, 417, 419-20, 422; carriage of munitions, 420; strike in, 421n
- RAILWAY TRANSPORTATION, DIRECTOR OF, 399-400
- RAMSAY, Pay-Cdr H. M., 16n
- RATIONALISATION, 144, 157-8, 181-2, 276-7, 281n, 287, 290, 412-3, 416-7, 419, 423, 424, 451-2, 453, 460n, 461, 464, 474n
- RATIONING, as factor in general policy, 26, 68, 82, 127, 158, 286, 288-90, 293, 303, 352, 450, 461-4, 466, 469-74
- COAL, 413
- FERTILISERS, 107-9
- NEWSPRINT, 135, 458-9
- PETROL, 11, 21, 129, 135-8, 215, 281-5, 347, 350-1, 424, 428n, 451, 453-5, 465, 470-1, 490
- TOBACCO, 457-8
- RATIONING COMMISSION, 105
- RAW MATERIALS, in pre-war plans, 2, 12, 18, 22; for aircraft production, 7, 268, 269, 322, 442; price control of, 29; shortages and allocation of supplies, 54, 103, 118, 138, 147, 153-4, 194, 277 *et seq*, 293, 300, 334-5, 357-9, 372-4, 377, 448-50, 462-3, 466, 468-91, 471, 495-6; for munitions production, 273-4, 307, 327-32, 435n, 447; imports of, 428, 430-1; Lend-Lease arrangements for, 454; *see also* separate headings
- RAYON, 131
- READING, Sir Claude, 203, 207, 369, 390
- REAL ESTATE, control of, 31, 47-53, 207, 212, 217, 293-4, 307, 372, 374-8, 466, 469, 471; building materials, 37, 274-5; enemy property, 141-2; acquisition for government use, 212, 294-5, 307, 320n, for coal storage, 418; debts on, 453n
- Recina, Yugoslav merchantman, 192
- RECIPROCAL LEND-LEASE, 434n
- RECRUITING, 133-4, 218, 436n, 484, 485
- RED CROSS SOCIETY, 250, 450n
- REFRIGERATED PRODUCTS COMMITTEE, 157
- REFRIGERATION, 70-5, 96, 147, 153, 157-8, 167, 439
- REGULATIONS, aircraft production, 441n; apples and pears, 100; arbitration, 245; banking, 394; barley, 94; butter and cheese, 68; capital issues, 197, 202-4, 206, 207, 217, 374; charter rates, 188; coal, 410, 414, 416, 421-3; coal freights, 419-20; debtors' relief, 453-4; defence, 29; dilution agreements, 239, 247; eggs, 71; employment, 235-6, 238, 245, 247-8, 249; enemy property, 141-2; flax, 280n; hides and leather, 106; imports, 120-2, 276; industrial peace, 414; jute, 279; liquid fuel, 283, 287, 450n, 452; meat, 74; metals, 328n; monetary and exchange, 111-5, 348; National Register, 229; National Security (General), 24-5, 29, 152, 188, 348-9; newsprint, 459; prices, 28, 30-1, 39-40, 348; producer gas, 291; rabbit-

REGULATIONS—*Continued*

skins, 104; rents, 48, 52, 348; reserved occupations, 233; sheepskins, 66; shipbuilding, 173, 175-6; shipping, 150, 152, 181-2, 188; supply, 254, 301*n*; transport, 424-5; war risks insurance, 185; wool, 64-5; wheat, 93; wine, 102

Remo, see *Reynella*

RENTS, 31, 44, 47-53

REQUISITIONING, 74, 108, 144, 145, 148, 151-2, 153, 156, 164, 177-83, 186, 188-9, 226, 293, 320*n*, 347, 397-8, 402, 405, 410, 416, 436, 450, 466

RESERVED OCCUPATIONS, LIST OF, 14-15, 17-18, 224, 227, 229, 232-5, 240, 477-80, 487, 499

RETAIL TRADE, prices, 34, 39, 42, 43; hire purchase, 208; imports, 427; rationing, 471-4; manpower, 483

RETURNED SOLDIER VOLUNTEER CORPS, see VOLUNTEER DEFENCE CORPS

Reynella, Italian merchantman, 151, 160-1, 163, 190, 192

RICE, 95

RICHARDSON, A. E. V., 279*n*

RICKARDS, G. R., 150*n*, 152*n*, 153*n*

ROAD TRANSPORT, DIRECTOR OF, 425

ROAD TRANSPORT UNION, 243

ROADS, 398, 407

ROCKHAMPTON, Qld, 62

ROGER, Sir Alexander, 334*n*

Romolo, Italian merchantman, 151, 161

ROOSEVELT, President Franklin D., 432

ROSEVEAR, Hon J. S., 476*n*

ROYALTIES, 37, 131-2, 428, 429

RUBBER, 29, 153, 154, 335, 460-1

RUMANIA, 140

RUWOLT'S LTD, CHARLES, 316*n*, 440*n*

SALISBURY, SA, 294*n*, 314*n*

SALVAGE, 190

SALVAGE BOARD, 189-90

SANDGATE, Qld, 294

SANDY HOLLOW, NSW, 406

SARINA, Qld, 292

SAVINGS, as factor in war finance, 364, 388, 390, 393, 470

SCANDINAVIA, 134-5

SCIENTIFIC AND INDUSTRIAL RESEARCH, COUNCIL FOR, 147, 271*n*, 275-7, 280*n*, 290-1, 455, 461*n*

SCOTLAND, 172

SCOTT, Sir Ernest, 143*n*

Scottish Monarch, British merchantman, 439

SCULLIN, Rt Hon J. H., 243, 384-5, 387

SEABORNE TRADE, ADVISORY COMMITTEE ON, 23, 116-125, 131, 132, 209, 260, 277, 355, 426-9, 494

SEA TRANSPORT COMMITTEE, 19, 21

SECURITIES, see INVESTMENT

SEYMOUR, Vic, 405

SHALE OIL, see FUEL AND POWER

SHANGHAI, 89

SHARES, see INVESTMENT

SHAW, A. G. L., 414*n*

SHAW SAVILL LINE, 152*n*

SHEDDEN, Sir Frederick, 493, 494

SHEEHAN, Sir Harry, 370*n*

SHEEPSKINS, see WOOL

SHIPBUILDING, pre-war plans, 150; development and administration, 155, 168-78, 190, 438-41; for navy, 225, 439-40, 449; wages in, 236, 244; finance for, 388, 435; engines, 440-1; manpower for, 476, 481, 491

SHIPBUILDING, DIRECTOR OF, 175, 177, 441

SHIPBUILDING BOARD, AUSTRALIAN, 175-6, 182, 438-41

SHIPPING, effect of war on, 4, 346-7, 350, 400, 402-3, 433-4; for exports and primary products, 4, 5, 8, 39, 55-110, 342, 345, 429; pre-war plans, 19-21, 143-50, 397-8; requisitioning, 26, 151, 189; freight rates, 31; of imports, 116-9, 121, 123, 125, 218-9, 334; control of, 139-41; neutrals, 154, 161-2, 190-1, 194; purchase of, 155, 165-8, 173; seizure of, 160-1; chartering of, 162-5, 173, 192; Aust use of, 163-4; for navy, 169, 439-40; value

SHIPPING—*Continued*

of ships, 184; wharf facilities, 188; losses, 193-4, 405; manpower in, 241-2, 244, 248, 249; for petrol, 282, 285-6, 288-9, 347, 350, 450, 451, coal, 405, 409, 411-20, 422-3, munitions, 420; effect on raw material supplies, 448, 459

SHIPPING ADVISORY COMMITTEE, 147

SHIPPING CONTROL BOARD, 147-51, 155, 156, 175-82, 184-9, 402, 412, 417, 422

SHIPPING MANAGEMENT COMMITTEE, 188

SHIPS CHARTERING COMMITTEE, COMMONWEALTH GOVERNMENT, 192

SILK, 29, 153, 154

SINGAPORE, 22, 117, 167, 168, 325, 340

SMITH, A. V., 435*n*

SMITH, W. J., 312

SOCIAL SERVICES, 386, 423; see also PENSIONS

SOCIAL SERVICES, MINISTER FOR, 215

SOMERS, Vic, 294

SOUTH AFRICA, 43, 60, 163, 167, 191

SOUTH AMERICA, 140, 166

SOUTH AUSTRALIA, munitions production, 6, 313, 314, 316, 465*n*; price control, 30, 39; rent control, 47-53; primary production, 71, 73, 79, 81, 89, 94, 107; coal for, 146, 178, 403, 409, 413, 417*n*; shipping, 160, 179, 189; finance, 199, 204, 384, 386; manpower, 229; machine tools, 261, 327*n*; aircraft production, 267; timber supplies, 276; service supplies, 294, 298; iron production, 328; transport, 399, 406*n*, 407; power alcohol, 456

SPAIN, 166

SPENCER GULF, SA, 189

SPENDER, Rt Hon Sir Percy, 199-201, 214-7, 220, 356-7, 391

SPOONER, Hon E. S., 385-6, 476*n*

SPOTSWOOD, Vic, 315

STABILISATION, ECONOMIC, 54, 66-8, 71, 89 *et seq*, 97 *et seq*, 106-7

STANDARD OF LIVING, 134, 351, 393, 489, 490, 499, 500

STATISTICIAN, COMMONWEALTH, 229, 250, 354, 482, 484

STATISTICS, of manpower, 16-17, 227-32, 239-40, 250, 342, 383*n*, 414, 476, 481-3, 491, prices, 42, 43, 489, rent control, 49, 51, primary production, 65, 67, 69, 72, 77-8, 80, 82-4, 92, 101, foreign exchange, 122, 124, imports, 128, 134, fuel and petrol, 136, 284, 291-2, 455, shipping, 145, 149, 189, 193; provision of, 224, 338*n*, 354, 483*n*; of industrial disputes, 240, 421, timber, 275, munitions, 314, 315*n*, 317*n*, 318*n*, aircraft, 324, 445, capital issues control, 373, 375, 376, finance, 382*n*, 395, transport, 397-8, coal, 409, 410, 413, 417*n*, national expenditure, 488

STEEL, 150, 153, 154, 277*n*, 317, 327*n*, 328-30, 334, 328*n*, 430, 434, 439, 463

STEELE, Maj-Gen Sir Clive, 300*n*

STERLING, see FOREIGN EXCHANGE

STEVENS, Sir Bertram, 335*n*

STEVENSON, J. A. W., 279*n*

STEWART, Sir Alexander, 6*n*, 313

STEWART, Hon Sir Frederick, 36, 215, 257*n*, 285*n*

STILLMAN, W. C., 150*n*

STOCKS, of fuel and petrol 11, 137, 280-2, 285-90, 450-5, raw materials for manufacture, 22, 118, 123-5, 218-9, 277-8, 304, 327*n*, 460-2; place in price control, 33-5, 38; of primary products, 56, 63, 65, 73, 75, 84, 87 *et seq*, 99, 105, 106, 108, 154, newspaper, 135, 459; emergency scheme for, 138, 150, 177-80; of coal, 178, 180, 403, 409-15, 417, 422, service equipment, 212, 296, metals, 327-32, 459-60

STORAGE, for primary products, 8-9, 55-6, 61, 63, 73-6, 82-3, 85-6, 91 *et seq*, 101, 103, 157-8, 162, petrol, 11, 21, 285*n*, 286-8, coal, 409, 413, 418-22

STRATEGIC STORAGE AGREEMENT, 63

STRATEGY, as factor in import plans, 116-7, 119

STREET, Brig Hon G. A., 15-16

STRIKES, see INDUSTRIAL DISPUTES

- SUBSIDIES, in primary production, 54, 76, 87, 96; for fertilisers, 108, new industries, 305-6; in munitions production, 306-7; for gas producers, 455
- SUBSTITUTE FUELS, DIRECTOR OF, 291
- SUEZ, 191
- SUGAR, 4, 8-9, 29, 36, 56, 83-5, 146-8, 150, 153, 157, 158, 189, 279*n*, 292, 456
- SUGAR CONTROL BOARD, BRITISH, 84
- SULLIVAN, H., 182*n*
- SUPERANNUATION FUNDS, 206
- SUPPLY, DIRECTOR-GENERAL OF, 496
- SUPPLY AND DEVELOPMENT, DEPARTMENT OF, formed, 13-14, 21; in import control, 23, 116-9, 121, 131, 430-1; pre-war plans of, 24-5; and price control, 44-5; procures service supplies, 105, 209, 213, 259-60, 271-5, 376, 467-9; Civil Supplies Division of, 118, 277, 327; fuel and petrol under, 136-8, 281-2, 287-92, 450-6; in shipping, 149, 190; administration of, 211, 253-6, 301-4, 310, 351-2, 355, 359, 448-50, 497; and defence works, 221, 382*n*; and manpower, 225, 228, 236-7, 250, 478; in munitions production, 257-9, 264-5, 307, 312, 314, 346, 447*n*; machine tools under, 260-1, 325; aircraft production by, 267-71; timber control under, 275; and raw materials, 277, 327*n*, 471, jute control, 278, flax production, 279-80; policy to new industries, 305-6; and aluminium production, 332, 444-7, E.G.S.C., 335*n*; statistical services of, 354; and transport, 402*n*, 416*n*, rationing, 472
- SUPPLY AND DEVELOPMENT, MINISTER FOR, 129, 135, 138, 180-1, 189, 230-1, 237, 257, 261-2, 280, 283, 285, 289, 291, 299, 305, 358, 412, 435*n*, 460, 493
- SUPPLY AND SHIPPING, DEPARTMENT OF, 192*n*
- SWEDEN, 165, 166, 437*n*
- SWITZERLAND, 140, 141, 191
- SYDNEY, 1-2, 37, 39, 104, 160, 179, 204, 251, 400, 403, 405, 422, 446, 454*n*, 465*n*
- SYDNEY COUNTY COUNCIL, 419
- SYME, D. York, 150*n*, 188*n*
- TABLE OF LIMITS, 61
- TAMWORTH, NSW, 341*n*
- TANKS, 319-22, 350, 351, 436, 449
- TARIFF, tinplate, 9; motor vehicles, 10, 135-6; factor in price control, 29; primary produce, 82, 102; protection for new industries, 168, 208, 291*n*; policy at E.G.S.C., 334; administration, 360
- TARIFF BOARD, tinplate, 9; motor vehicles, 10, 135; shipbuilding, 150, 168; import replacement and new industries, 209, 291*n*, 304-5, 469; as advisory committee, 328*n*, 347, 360-1, 464, 466, 476
- TASMANIA, price and rent control, 30, 47-53; primary production, 39, 71, 73, 79, 84, 86, 96-102, 280; coal, 146, 178, 409, 413*n*, 418*n*; shipping, 147, 151-2, 179, 187; finance, 204, 384; employment, 199, 229; munitions production, 313, 341; aluminium production, 330; paper production, 459; report on industries, 465*n*
- TAXATION, imposed, 10-11, 32, 54, 87, 89-90, 129, 137-8, 196-7, 217-20, 363-7, 383, 385, 388-90, 393-6, 455, 471; general policy concerning, 200-1, 214, 216-7, 226, 342-3, 347, 351, 356, 358, 369-70, 372, 377, 470, 500; the States and uniform rates, 353, 372, 385-7, 504; manpower for administration, 477; related to national expenditure, 489-90
- TEA, 4, 29, 365*n*, 470
- TECHNOLOGY, drying eggs, 73; packing meat, 75; restricting fruit, 100; tank production, 436-8; shipbuilding, 439; aircraft production, 441-2; munitions, 465*n*; industry in general, 501
- TEXTILE WORKERS' UNION, 243
- Theofano Livanos, Greek merchantman, 192
- THOMSON, J., 192*n*
- THOMSON, Sir Vernon, 159*n*
- THOMPSON'S PIPE AND ENGINEERING CO, 316*n*, 440*n*
- THORPE, Sir Fred, 313
- TIMBER, 37, 124, 146, 147, 153, 154, 161, 162, 164, 179, 180, 181, 189, 275-7, 300, 428*n*, 460-1
- TIMBER CONTROL OFFICE, 277
- TIN, 329, 330
- TINPLATE, 9, 124, 277, 300, 329*n*, 335, 434, 459-60
- TINPLATE BOARD, 460
- TOBACCO, 127, 138, 365, 428*n*, 434, 450, 457-8, 470
- TOBACCO BOARD, AUSTRALIAN, 457
- TOCUMWAL, Vic, 399, 400, 405
- TOMS, E. R., 16*n*
- TOWNSEND, A. R., 169, 173, 175
- TOWNSVILLE, Qld, 62
- TRADE, controls and overseas trade, 44, 110, 115-25, 130, 139-42; primary products and international trade, 60, 62-3, 73-4, 83-4, 89, 94; diversion policy, 135; with the enemy, 139-40; with U.S.A., 433-4
- TRADE AND CUSTOMS, DEPARTMENT OF, role in motor vehicle manufacture, 10, in export control, 11-12, 113; in pre-war planning, 19; administers import control, 23, 116-125, 260, 261, 282, 427, 428, 460, price control, 28-29, 30, 31, newsprint control, 135, 458, trade controls, 139-42; its role in shipping, 150, 151, 161, 184, in shipbuilding, 169-73; its policy on new industries, 208, 214, 304-5; role in Lend-Lease, 433; administration of dept, 501
- TRADE AND CUSTOMS, MINISTER FOR, administers rent control, 51-3, controls on trade, 141; part in shipping, 180, in general policy discussions, 214-5, 305; joins Economic Cabinet, 358; administers imports, 429, tobacco, 458, newsprint, 458-9; joins Economic and Industrial Ctee, 493
- TRADE COMMISSIONERS, AUSTRALIAN, 260, 431-3
- TRADE MARKS, 140-2
- TRADE ORGANISATIONS, in price control, 37, 38; policy on employment of, 64; in primary production, 89, 95, 97; in petrol industry, 130, 282, 284, 289, 292*n*; for newsprint, 135, motor vehicles, 135; in shipping, 144; for timber, 189, machine tools, 261
- TRADE UNION ADVISORY PANEL, 15, 224, 242-3, 245, 250
- TRADE UNIONS, rights of, 14-16, 453*n*, 485; attitude to price control, 45-7; in shipbuilding, 171, 173, 175; disputes and advisory panel, 224, 241-3, 250; dilution agreements, 225, 237-40; unemployment returns, 230, 234; incentives and war loadings, 235-6, 247-9; influence on general policy, 346, 473
- TRAFFIC COMMITTEES, 181, 188-9
- TRAINING, 235-40, 250, 261, 325, 351
- TRAINING, DIRECTOR OF TECHNICAL, 239, 250
- TRANSPORT, early plans for, 18, 26, 347, 397-8, 403; of primary products, 61-2, 157-8; costs in imports, 123; in 1914-18 war, 145; in emergency stocks scheme, 177-8; industrial conditions in, 242, 248; restrictions of, 281-3, 290, 400, 424-5, 452-3, 496; Commonwealth-State relations on, 353; of munitions, 420; see also FREIGHT RATES; MOTOR VEHICLES; RAILWAYS; SHIPPING
- TRANSPORT, DEPARTMENT OF, 408, 424-5, 453
- TRANSPORT, DIRECTOR OF, 424-5
- TRANSPORT, MINISTER FOR, 189, 493
- TRANSPORT, PRINCIPAL COMMITTEE ON, 178, 180, 402-8, 411-2
- TREASURER, 126, 132, 138, 195-6, 202-4, 211, 214-7, 221, 283, 319*n*, 356-8, 363-5, 379, 384, 388, 391, 462, 471, 476, 493, 497
- TREASURY, in import control, 23, 116, 119-20; War Book plans of, 24, 26; in price control, 32; and interest rates, 44, 202, 217, 220-3, primary production, 59-60, 87, monetary control, 110, 112, 132; role in administration, 122-3, 199, 201, 344, 355-7; in shipping, 184-6, 190; and capital issues, 204-6, 209, 374, 389,

TREASURY—Continued

466*n*, defence expenditure, 209-13, 274-5, 381-2, manpower, 236, 251, supply, 259, 303-5, 440-1, 444*n*, 447, banking, 367, 378-80, munitions, 475, Dept of W.O.I., 495, 498

TREASURY FINANCE COMMITTEE, 209-11, 213, 256, 258, 260, 265

TRUSTS, 447*n*

TUCKER, W. H., 416*n*

TURKEY, 83

UNEMPLOYMENT, influences general policy, 1, 127, 137, 195-6, 198, 200, 202, 209, 218, 220-1, 226-7, 229-30, 234, 246, 315*n*, 342, 353, 363, 369, 370, 374, 381, 458, 465; disappearance of, 391, 475-6, 482, 485, 486, 500, 504

UNEMPLOYMENT INSURANCE, 215, 217

UNITED AUSTRALIA PARTY, 387-90, 502

UNITED KINGDOM, *see* GREAT BRITAIN

UNITED STATES MARITIME COMMISSION, 166

UNITED STATES OF AMERICA, equipment and supplies from, 7, 259-60, 267-8, 271, 320-1, 325, 326, 330-2, 431, 433-4, 437-8, 442, 459-60, 500-1; price control in, 42-3; and Australian primary production, 63, 66, 79, 82, 87, 92, 95, 103-5, 457, 460*n*; armed forces in Australia, 76, 103; Australia's lack of dollars, 110, 111, 113, 115, 119, 127, 129, 132, 135; shipping, 143, 165-6, 167, 173-4, 191, 193-4; steel prices, 328*n*; Lend-Lease, 432-4; war effort of, 490; effect of entry into war, 504

UNIVERSITY OF MELBOURNE, 290

Valiente, American merchantman, 166

VESTEYS LTD, 73

VICTOR HARBOR, SA, 294

VICTORIA, munitions production, 2, 6, 267, 298, 313-4, 317, 327*n*; prices, 30, 37; rent control, 49-53; primary production, 62, 71, 73, 79, 81, 87, 89, 93-4, 96-7, 107, 276, 279-80, 457*n*; coal, 146, 178, 403, 409, 413, 417, 419; manpower, 199, 229; finance, 204, 384, 387; transport, 284, 397, 399, 404-7, 420; oil and power alcohol, 292, 456

VICTORIAN CHAMBER OF MANUFACTURES, 140

VICTORIAN ONION MARKETING BOARD, 37

Vito, Norwegian merchantman, 192

VOLUNTEER DEFENCE CORPS, 337, 490

WACKETT, Wing Cdr L. J., 6*n*

WAGES, pre-war plans for, 15; and cost of living, 28, 42, 43; basic wage, 28, 44, 244, 246-8, 291*n*, 393; as factor in price control, 31-2, 35, 37, 44-7, 346; in sugar industry, 84, shipping, 187, mining, 197; incentives and war loadings, 225, 226, 235-6, 238, 241-2, 247-9, 415; as factor in general economic policy, 242, 249, 350, 369, 370, 486, 487; and Arbitration Court, 246-7; in cost-plus contracts, 310; in national expenditure, 488

WAGGA, NSW, 341*n*

WALKER, Dr E. R., 344, 357*n*

WALKERS LTD, 169, 440*n*

WALLANGARRA, NSW, 399, 400

WALSH ISLAND DOCKYARD, 174

Wanganella, Hospital ship, 165*n*

WAR BOOK, COMMONWEALTH, 8-9, 18, 23-27, 59, 139, 145, 150-1, 342, 346, 399-400, 402

WAR CABINET, 75, 173, 180, 193, 210-1, 228, 231-2, 256-63, 266, 269-71, 287-9, 294, 314-5, 322, 323, 325, 329-32, 334, 337-41, 347, 358-9, 405-8, 421, 424, 432, 440, 441-4, 446-9, 477, 481, 495-7

WARD, Hon E. J., 52

WAR ECONOMY, pre-war concept of, 13, 18-23; price control in, 32-3, 40-1; place of exports, 54-6; role of finance, 133-4, 205, 356; transfer of resources, 159, 213-5, 225-6, 253, 273-5, 293, 300, 303-4, 307-8, 340-1, 342-9, 354-5, 364, 426; political and strategic uncertainties affect, 358-9; scale at end 1941, 463-74, 480-90, 499-504; international comparisons, 490

WAR OF 1914-1918, influence on 1939-45 policy, 1, 24, 25, 139, 226-7, 254, 277*n*, 344-5, 349,

WAR OF 1914-1918—Continued

399*n*, 462; exports in, 4, 58, 60-1, 64, 66; finance in, 16, 115, 197, 202-3, 211, 217; prices in, 28, 42, 43; position of ex-servicemen from, 54, 79, 96, 101, 102; shipping in, 143, 145, 148

WAR ORGANISATION OF INDUSTRY, DEPARTMENT OF, 281*n*, 290, 361, 463-70, 478-9, 486, 487, 494-5, 498-500

WAR ORGANISATION OF INDUSTRY, DIRECTOR OF, 466*n*, 494, 496, 497

WAR ORGANISATION OF INDUSTRY, MINISTER FOR, 454, 493, 495

WAR PRODUCTION PLANNING BOARD, 496-8

WAR RAILWAYS COMMITTEE, 399, 425

WAR RAILWAY COUNCIL, 19, 398-404, 407

WAR SAVINGS CERTIFICATES, 202, 250, 369, 388, 393

WATSON, J. A., 30*n*

WATSON, Colonel W. D., 437*n*

Wear, Australian merchantman, 422

WEBB, J. L., 150, 182, 188

WELSHPOOL, SA, 341*n*

WERRIS CREEK, NSW, 400

WESTERN AUSTRALIA, iron resources, 9, 327*n*; price and rent control, 30, 49-53; primary production, 62, 71, 73, 82, 89-90, 94-97, 108, 280, 457*n*; shipping, 147, 154, 187; gold-mining, 197; finance, 199, 204, 384; trade unions, 243; transport, 290, 403, 407, 452*n*; munitions, 313, 341; coal, 409, 413*n*, 418*n*; power alcohol, 456

WESTERN AUSTRALIAN WAR INDUSTRIES COMMITTEE, 465

Westralia, Danish merchantman, 160, 163, 190, 192

WESTRALIAN FARMERS, 160, 162, 164, 190, 192

WHEAT, marketing difficulties, 4, 5, 8-9, 59, 85-94, 131, 342, 345, 358, 434; cornsacks for, 36, 277-8; shipping for, 154-5, 157, 159-65, 167; drought relief, 367

WHEAT BOARD, AUSTRALIAN, 89-91, 93, 160-5, 167, 181, 190-2, 278

WHEAT INDUSTRY STABILISATION BOARD, 93

WHITAKER, C. E., 153*n*

WHITE AUSTRALIA POLICY, 1

WHITE, W. A., 30*n*

WHYALLA, SA, 328, 403, 438, 439

WILLIAMS, Capt G. D., 150*n*

WILLIAMS, H. L., 418*n*, 421*n*

WILSON, M. S., 418*n*

WILSON, Sir Roland, 16, 22, 249-50, 354, 357*n*, 472, 493

WILSON, R. C., 479*n*

WINE, 8-9, 82, 85, 102-4, 159, 161, 163

WINE BOARD, AUSTRALIAN, 102

WINE OVERSEAS MARKETING BOARD, 9

WODONGA, Vic, 294, 419

WOMEN, employment of, 226, 244, 246, 478, 479, 481, 483-6, 490-1, 499; voluntary work by, 250

WONTHAGGI, Vic, 37

WOOL, woolpacks, 36, 277, 278; marketing of, 56, 58-66, 103-4, 114, 153-4, 158, 273-4, 450, 460*n*, 466, 490

WOOL REALISATION COMMISSION, AUSTRALIAN, 65

WOOLSELLING BROKERS, NATIONAL COUNCIL OF, 104

WORKS, *see* PUBLIC WORKS

WORKS, COORDINATOR-GENERAL OF, 222-3, 381-3, 405-7, 494, 497

WORKS, DIRECTOR OF, 295

WURTH, Wallace C., 479

YARRAVILLE, Vic, 292

YEO, N. W., 60-1

YOKOHAMA SPECIE BANK, 91, 112

YOXON, H. F., 475*n*

Zealandia, Australian merchantman, 179

ZINC, 148, 154, 329

ZONING, 290

Zvir, Yugoslav merchantman, 192